SCIENTIFIC INVESTMENT FOR EVERYBODY

# THE MAGAZINE OF WALL STREET

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# A Voice From Italy

## This Roman Bond Buyer Knows a Good Magazine

THE MAGAZINE OF WALL STREET has numerous subscribers in most of the civilized countries of the world.

We admit that at first we were somewhat surprised at this. It is true enough that pretty much the whole world watches Wall Street prices. It is true that the science of investment is a subject of interest everywhere. It is true that our "Traders' Department" is unique and has no parallel in any other publication in the world. Nevertheless our offhand opinion would have been that a monthly called THE MAGAZINE OF WALL STREET would not attract much attention abroad.

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DOUBTLESS the evident sincerity of our efforts and the independent spirit we maintain toward the activities of Wall Street have had much to do with our standing in foreign countries. At any rate, the letters of appreciation we receive from foreign subscribers from time to time are always welcome.

Here is one from Rome that reached us recently. The writer's English has a few peculiarities, but not nearly so many as our Italian would have!

* * *

I AM a constant reader of your Wall Street magazine, which in many instances relates to the 'tape-reading' as the best critic of the market prices. I do not care much about fundamentals or any other discussion which may arise on such a difficult argument, because one cannot guess the future with any reliable amount of security.

"I know you have a great stock market experience, but as to the principles laid down from different sources on such a matter, they cannot be very consistent.

"I agree with you in your statements but I would not give up my judgment, because my experience has taught me that my own judgment is more valuable than any gossip in the papers. It is not with self-vanity that I say I have never failed in forecasting the principal lines of the market in the long run and I have made many times great and profitable bargains. I bought a great many Spanish and Russian Government bonds during the war at the lowest of prices and even in the American market I have had remarkable success.

"I shall always be a constant reader and admirer of your magazine and learn from it what I want to know. As a plucky operator when circumstances are clear, I will draw a great design with the confidence of striking rightly and deeply. Believe me, dear sirs, yours truly,

"A. Q."

* * *

MORE power, say we, to the "great designs" of this courageous Roman! And may our "great stock market experience" continue to be of use to him!

We take it as a compliment, also, when he says that the principles laid down in our magazine are not always consistent. "A foolish consistency is the hobgoblin of little minds," said one R. W. Emerson, formerly of Concord, Mass., who also has something of an international reputation. And somebody else has said, "Consistency is a jewel—in a swine's snout!"

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WE aim to afford an open forum for the expression of reasonable opinions and theories. The truth is not always popular. A valuable thought may come from the most unexpected source. If we tried to make everything in this magazine correspond with our own ideas, we would have to run in a narrow rut.

Our readers have not failed to note that we publish many articles which are quite different from those appearing in any other investment publication. We would not think of writing such articles ourselves—that's just the reason why we publish them—and very possibly it is also the reason why we have so many subscribers, foreign and domestic.

SEE WHAT "THE MAGAZINE OF WALL STREET" STANDS FOR, ADVERTISING PAGE XIII.

J. P. Morgan & Co. N. Y. Stock Exchange

BROAD STREET LOOKING SOUTH FROM WALL

# THE MAGAZINE OF WALL STREET

(FORMERLY THE TICKER AND INVESTMENT DIGEST)

SCIENTIFIC INVESTMENT FOR EVERYBODY.

Vol. Eleven MARCH, 1913 No. Five

# Governor Sulzer and the Stock Exchanges

By MAURICE L. MUHLEMAN

Ex-Deputy Treasurer of the United States

**[NOTE.—Mr. Muhleman was secretary of the Hughes Commission, and is especially qualified for the discussion of this subject from an impartial viewpoint.—Ed.]**

GOVERNOR SULZER'S message to the Legislature on the Stock Exchange was an agreeable surprise despite its severe criticisms of certain questionable features in the methods of business in the security markets, because it did not take the extreme view of speculation which is so often assumed by men in political life, upon the theory that it appeals to "the people."

Two points stand out prominently in the situation as developed by the message: First, the State has the opportunity to anticipate the action of Congress pursuant to what we have reason to expect the Pujo Committee will report; and second, the Governor has in general based his action on the report of the Hughes Commission of 1909, which is eminently safe ground for all concerned.

He has followed his message with drafts of ten legislative bills to carry out his purpose, which bills are now before the public for serious consideration.

The subject of reform in security dealing is manifestly a matter for the State to take up, as part of its general police power; not only is the Federal Government not in position to deal with the subject adequately, but the question of jurisdiction is one that is still among the undecided legal points, with preponderance of opinion on the side of the denial of the power of the Federal Government to intervene. The line in which it is proposed that the Federal power shall be exercised—through its postal laws—presents not only a straining of power, but a probability of inefficient operation, because cumbersome and almost certain to interfere with legitimate business. At best Congress could not act until the next session, which may mean that reforms might be postponed for a year.

The proposition, boiled down, is that the privilege of the use of the mails shall be forbidden members of any exchange that is not incorporated. This opens up the questions, how the busi-

ness shall be regulated to eliminate evils, and how far the Federal law may clash with, or operate divergently from, State laws governing contracts and business in general.

It needs no long discussion to show that Governor Sulzer has laid before us a program that is of far more constructive value, even though he appears still to have considerable faith in the utility of incorporation, and has apparently made up his mind to ask an amendment of the law of 1882, which permits contracts for loans on collateral exceeding $5,000, at rates of interest above the legal 6 per cent. rate, without incurring the penalty of the usury law.

* * *

SO far as incorporation goes it should not be difficult to demonstrate that no appreciable advantage is gained thereby, whereas there are many disadvantages likely to follow such a policy. What possible power of regulation could the State obtain by compelling incorporation that it does not now have? Absolutely none. The State can place the exchanges under the supervision of the Banking Department, or of a new department, and provide complete regulation.

Some people have an idea that incorporation carries certain virtues, which is totally erroneous. Goodness knows, the regulation of corporations under our present laws—both in this and other States—is not such as to commend itself to anyone who wants to have business upon sound and proper lines. As the Hughes Commission pointed out, the weakness of our corporation laws is responsible for a whole lot of the questionable things charged to "Wall Street" by men who do not know and will not think; and to these men "Wall Street" is synonymous with the stock exchanges. The exchanges have enough to answer for, without putting on them the burden of blame for imperfect and even vicious corporation laws.

Governor Wilson's recent work in New Jersey bears witness to a keen appreciation of the distinction, and of the duty of the State in the premises; Governor Sulzer should follow the example and give serious thought to the same subject of corporation reform, to prevent the indiscriminate flotations of securities by means of which the public can be, and is, deprived of its money, outside of the stock exchanges as well as within, and outside of "Wall Street" as well as in that section. It is a disgrace to the States that the Federal Government has to pursue these depredators through its Post-office Department, after they have gulled the public, instead of having the much more useful preventive laws enacted by States.

Wall Street cannot be entirely exonerated for these conditions, for, while much has been done at times to remove them, there has never been an energetic movement for legislation to restrain the manufacture and sale of questionable securities; if that had been done the conditions would be materially improved. It was far-away Kansas that has led off with "Blue Sky" laws to show us how.

Moreover, there have been so many obvious cases of improper manipulation on the Stock Exchange itself that one cannot give it a "clean bill of health." The difficulty involved in correcting such defects is recognized; yet the consequences are so injurious to the public and to the Exchange that no efforts should have been spared to get results. The judgment of the Hughes Commission, that the Exchange with its summary power over members could have done this, will stand in the minds of the public as conclusive proof of neglect.

* * *

THE purpose of the laws proposed by Governor Sulzer will, if enacted, serve to help the Exchange to "clean house"; as to one of them it has already taken steps to co-operate with the Governor—to wit, in the most important matter of vicious manipulations. If the progressive spirit will thus be made manifest with respect to all the evils complained of, the Exchange may be assured that the public will appreciate it and regain the confidence which has clearly been very much undermined.

Some members of the Exchange

seem disposed to treat this particular subject without that seriousness which its importance deserves. This is a fatuous attitude. They may as well accept the situation; that class of "business" is going to be stopped; the way will be found.

It is not useful to spend time deploring that the Exchange did not act sooner; it is imperative that there shall be no waste of energy on attempts to defend abuses, otherwise the legislation that will come may be detrimental. What is needed now is frank and sincere co-operation to work out beneficial laws and prevent such as may not prove beneficial. Most of the bills proposed clearly aim at vices the prevention of which will be beneficial.

* * *

THE value of the proposition, which provides substantially that there shall be a limit of 15 per cent. on "call loans," is open to debate; let it therefore be debated seriously, lest it become law without proper consideration.

It is unquestionable that if the country had a proper banking and currency system, the call-loan rates would not gyrate as they do, and that objectionable condition would disappear. It might still occur that money would be at 10 per cent. upon call, on special occasions; but the obviously barbarous and disgraceful exhibition of 186 per cent. would be impossible.

Until the system *is* reformed it might be well to put a limit upon the rate by law despite the fact that, in principle, it appears to many to be unwise. The price for money is subject to the law of demand and supply *in normal circumstances;* but our system produces such *abnormal* circumstances that the law of demand and supply is inoperative; it is palpable that a price of 186 per cent. is never made because of the operation of that law, but entirely arbitrarily.

Let it be borne in mind: First, that human experience, as exemplified in our legislation, favors as a wise policy a limit upon interest charges; second, the purpose of raising rates is to discourage excessive commitments, and a 15 per cent. rate should serve that purpose as well as a 50 per cent. rate.

It is well known that some banks take advantage of the abnormal rates sometimes charged, to "gouge" security borrowers, without actual justification; on the other hand, a few banks never charge more than 6 per cent. even when the loan market becomes foolishly worked up to 186 per cent.

Finally, let us not forget that there is a distinct impression in the public mind that the exemption of collateral loans from the operation of the usury laws without limitation is a piece of class legislation, and all class legislation is obnoxious. Reasoning on a purely economic basis cannot remove this impression, and it would seem judicious to let the Governor's proposition be adopted. Let us be willing to yield upon this point whatever theory we may hold respecting the abstract question, in order that we may reach practical results. The Governor offers a reasonable compromise.

* * *

AS to his other recommendations there is this to be said: If "wash sales" do not occur on the Exchange, the proposed law would in no wise interfere with its business; and so long as people think "wash sales" *do* occur, it will satisfy them to penalize such trading.

Trading against a customer, or "shading" the price at which a security is bought or sold, may be very infrequent, but the soreness that it leaves when such things occur is so great that a law making such practices penal offenses would be salutary.

If securities bought on margin are not improperly hypothecated, no harm can be done by making such hypothecating punishable if loss occurs; many people think the practice exists.

Taking in orders, money, or stocks after insolvency is certainly not defensible; it has occurred to the loss of many in and out of the Exchange; it should be made a penal offense.

As to false representations respecting values of securities, members of the Exchange cannot have two opinions relative to its viciousness, and the law should reach it.

Discrimination against members of other exchanges is regarded reprehensible by the public; if allowed, there would be no limit placed upon it; hence the Governor merely voices public sentiment when he proposes that it be prohibited by law.

It is hardly possible to imagine any member of the Exchange objecting to the strengthening of the anti-bucket shop law, so that may be considered acceptable.

If the language of the bills is defective or open to improvement, the duty of all concerned is to see that they are revised so that the purposes in view may be accomplished.

# American Telephone Rights

A BOSTON Stock Exchange firm has sent the following letter to a number of holders of American Telephone & Telegraph Co. stock:

Through the sale of your American Tel. & Tel. Co. stock and the purchase of the new issue of the company's 4½% convertible bonds, you can make approximately $276.21 on each hundred shares you own, without risk, and on March 1, 1915, have your investment back again in American Tel. & Tel. stock by the following method:

| | | |
|---|---|---|
| Sell: 100 Am. Tel. & Tel. stock at 133⅝. | | $13,362.50 |
| Deduct commission... | | 12.50 |
| Proceeds ............ | | $13,350.00 |
| Buy: 600 Rights at 75 cts. ............ | $450.00 | |
| Commission ......... | 30.00 | |
| Subscription Feb. 17 to $12,000 Amer. Tel. & Tel. Co. 4½s at 99.85 ........... | 11,982.00 | |
| | $12,462.00 | |
| Add loss of income for 2 yrs., viz., difference between $800 dividends per annum payable on stock and $540 interest on the bonds for 2 yrs.... | 520.00 | |
| Add dividend accrued for 2 mos. Jan. 1 to March 1, 1915..... | 133.33 | |
| Total cost ........... | $13,115.33 | |
| Deduct interest received on proceeds sale 100 shares, say, 4% Jan. 21 to Feb. 17 on $13,350 ........ | 41.54 | |
| | | $13,073.79 |

The 600 Rights will allow subscription to $12,000 of the 4½% bonds, which on March 1, 1915, are to be exchanged for 100 shares of stock, putting your investment back exactly where it is today; in the interim you have had your investment in Amer. Tel. & Tel. bonds.

You will have sold your stock for $13,350 net and the bonds with all allowances will have cost you $13,073.79, showing a clean profit of $276.21 on each hundred shares.

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The weak point in this proposition is the failure to allow for additional rights which, past history shows, are very likely to be awarded to stockholders during the next two years. Rights worth 3 would more than wipe out the "clean" profit of $276.21. Anyone who makes this exchange is therefore betting $276.21 that there will be no rights, or if there are any they will be worth less than that amount.

# Foreign Exchange and International Finance

By AUGUST ULRICH*

**[NOTE.—Mr. Ulrich is a partner in one of the big banking houses most active in foreign exchange. He gives here an unusually clear discussion of the principles involved.—Ed.]**

THE carrying on of commerce from time immemorial has always been done in such a way that one community or one country sells to another only those goods of which it produces more than it needs for its own consumption. So for instance will America sell on balance wheat, corn, cotton, oil, lumber, tobacco, gold, copper, and also a good many manufactured articles, South Africa will sell wool, gold, diamonds, Australia wool, furs, gold, India rice, shellac, cotton, spices, China silk, hides and skins and ores. Some large industrial countries such as England, Germany, France, export all sorts of their industrial products.

Against these exports the various countries import something they do not produce or of which they do not produce enough for their home consumption. So will America for instance import woolen goods, cotton goods, toys, sulphurores, skins and hides, silks, dress goods, and a thousand other articles; England, Belgium, Germany, Holland, France will import raw cotton, tobacco, corn, and so forth.

This constant exchange of goods between the various countries is really and truly foreign exchange, but is mostly called foreign trade. When we speak of foreign exchange we mean something different. We mean the bills of exchange which are drawn in foreign currencies against shipments of goods or otherwise, and the market in which such bills are bought and sold we call the "foreign exchange market."

But the international transactions of which the "foreign exchange," or as they are more correctly called in London, "foreign bills," are the evidence, need not be of a commercial nature only. In fact a great many foreign bills represent financial transactions. Such bills are commonly called "finance bills" as against "commercial bills," which represent commercial transactions.

"Finance bills" generally are drawn against loans or advances made to the drawer of the bill or to a client of his *by the drawee*. In some cases such bills are accompanied by shipments of securities which are either sold to Europe or simply pledged in Europe as collateral for such "finance bills." The former class of bills is sometimes called a "stock bill," the underlying basis for the bill being a stock or bond transaction. They are generally drawn by so-called arbitrage houses, that is, houses doing business in stocks and bonds with London, Paris, Berlin, Amsterdam, by way of arbitrage.

If you will understand the enormous scope of international dealings in securities which practically depend on every ⅛% margin between the various markets, and will take into consideration the fact that every year hundreds of millions of dollars are loaned to this country by Europe, where the price of loanable capital generally rules lower than it does in America, then you will get a fair idea of the amount of "finance bills" drawn in this country on Europe.

Since these "finance bills," which should be more correctly called "loan bills," in their ultimate analysis represent money borrowed from Europe by us, you will furthermore understand what a formidable offset they form when they become due and are to be settled, against money coming to us from Europe on account of our exports of wheat, corn, cotton, oil, etc.

* * *

THE question now suggests itself, How is the balance of trade affected one way or the other?

The expression "balance of trade"

*Extracts from an address at the New York Finance Forum.

means exactly what it says, viz., the difference between the aggregate amount of exports and the aggregate amount of imports of a country. If the imports in dollars and cents overleap the exports, the "balance of trade" is against a country; if the exports exceed the imports the "balance of trade" is in favor of that particular country.

It therefore stands to reason that it must be the aim of every country to export more than to import, as a balance must be ultimately settled by shipments of gold. It thus follows that exports of gold come in the wake of an unfavorable trade balance and since the whole money and currency machinery in countries enjoying the gold standard, is built up on a gold reserve, any serious impairment of that reserve through gold exports tends to make money dear in the country which parts with gold by having to export it against an unfavorable trade balance.

In arriving at the trade balance between America and the large European countries we have to enter on the "credit side" of the account:

(1) Our exports of produce such as cotton, corn, oil, metals, provisions, tobacco, etc.

(2) Railway and industrial securities which find a permanent home abroad.

(3) Our not inconsiderable and ever-growing exports of manufactured articles, especially those of the steel branches, such as locomotives, agricultural implements, machinery of all kinds, furthermore pianos, automobiles, etc.

On the debit side of the account we enter:

(1) Imports of manufactured articles.

(2) Securities bought back by us from Europe for permanent stay here.

(3) Freights due to foreign ship owners.

(4) Premiums due to foreign insurance companies.

(5) Commissions payable to foreign bankers.

(6) Expenditures of American travelers abroad.

While Nos. 1 and 2 may be called visible imports, those enumerated under headings 3, 4, 5 and 6, pass under the term of invisible items, as there is no exact record of them possible.

I should add under invisible items the amount of interest and dividends payable to foreign holders of our securities. You will readily understand that this last item is an important one if you consider that the United Kingdom alone holds about $3,200,000,000 of our securities, and that Berlin, Paris, and Amsterdam are buying more of our securities every year in addition to the enormous amounts they already hold.

I may insert that a trade balance largely in favor of a country generally leads to purchases of securities from abroad. So for instance did New York recently buy back enormous amounts of securities from Europe on the strength of the excellent prospects of our railroads, following the good crops which make for better railroad earnings. Such purchases of securities from Europe are of course, as I mentioned before, entered on the debit side of our international account.

In studying the settlement of transactions between nations we immediately are pressed to the conclusion that the foreign exchange market, which is, so to speak, the clearing house of such trades, will be influenced by them one way or the other.

Foreign exchange rates between countries enjoying the gold standard are governed by influences arising out of one of two factors or both factors, viz., *relative indebtedness and the relative value of money*. The expression "relative indebtedness" means the relation which the amount of exports bears to the amount of the imports or the extent to which one country is indebted to other countries, as evidenced by the "balance of trade." The expression "relative value of money" denotes the relation of interest rates in one country to those prevailing in another. Last year the balance of trade—minus, of course, the invisible items of freight, insurance, funds used by our travelers abroad, etc. —was in favor of America by many millions. The visible and recorded balance of our exports over our imports amounted in round figures to $600,000,000.

Consequently rates of exchange were

depressed through our large exports, our cotton and grain bills swamping the exchange market in record-breaking fashion, leading to imports of gold to this country last autumn. If those gold imports did not assume larger proportions than they did, it was for the following facts:

(1) That we had to repay heavy amounts borrowed from Europe last summer.

(2) That we bought back large blocks of American securities from Europe.

(3) That we had to remit to Europe more than ever before on account of interest and dividends on American securities held abroad.

(4) That we owed Europe more than at any previous time for freights, insurance premiums, and bankers' commissions for financing our trade.

Indeed these invisible items (because not officially recorded) totaled up such a tremendous sum that by January 8 of this year exchange had risen about ½ of 1 per cent. For instance, checks on London sold at 484¾ in the last days of December, and at 487 on January 8. Or let me put it in another way, in December exchange was at gold importing point and on January 8 gold shipments from here to Paris started.

The rise in exchange since January 1 was, however, accelerated by the relatively higher value of money abroad, rates for three months time loans in New York practically dropping from above 6 per cent. to 4 per cent. between the end of December and the 8th of January, 1913, against private discount rates at London of 4½ per cent., at Paris of 4⅛ per cent., and at Berlin of 4½ per cent. on January 8.

* * *

OFTEN we have had the experience that the balance of trade was against us, and exchange rates should have been high. But then the value of loanable capital in America rose so high that it paid handsomely to draw finance bills in large amounts which weighted down the exchange rates and we actually imported gold where the balance of trade really called for gold exports from here.

Unless our local call money market goes entirely out of gear and rates soar as high as 50 per cent. and 80 per cent., the large European central banks, by means of raising their official discount rates, can at nearly all times avert or at least postpone an export of gold to this country.

In a marked degree is this the case late in the year, when high discount rates abroad obviate the drawing of finance bills here. Furthermore the large European acceptance banks, which accept 60 and 90 days sight finance bills for a commission, oftentimes refuse to be drawn upon in December as they like to cut down as much as possible the amount of "bills accepted" in their balance sheets published on December 31, all banks striving to make as strong a showing as possible, this being commonly called "window dressing." Since the same principle is followed in this country it might not be a bad idea if international bankers would agree to close the financial year on March 31, for the reason that by that time a large part of the crops all over the world has been moved, the trade, therefore, needing less financing. Instead of that we find the silly spectacle of seeing large amounts of money locked up, oftentimes long ahead of December 31, for such window dressing purposes, valuable funds being taken away from the market at a time when they should serve a most useful purpose. It would be better still if the financial year would close on June 30, a date which has been commonly adopted by a large number of our railroads.

Although a country with an adverse trade balance can and very often does avert gold exports for some time, it finally must settle in gold, unless it be able to bridge over the period of stress by large sales of obligations (securities) to be met at some later time, when its finances may be in better shape.

Only recently we witnessed an illuminating example, when Austria-Hungary saw itself compelled to borrow $25,000,000 in New York. The fact was that exchange on Vienna in New York had dropped to almost 20 cents a crown, and if it had not been for the above loan, which called for heavy remittances from here to Vienna, we could

have taken considerable gold from Vienna.

* * *

IN this connection I will again point out the benefits which would accrue to our exchange market, if we had a Central Bank of Discount. In a recent article I tried to prove that it really was its discount market which gave London the undisputed title of "the world's banker."

Everyone knows that there is a large market at every important trade centre, in Europe as well as in Asia, America, Africa, Australia, in fact all over the world, in bills of exchange on London at 30, 60, 90 days, 4 months and 6 months sight. The later maturities of bills are mostly employed in cases where the merchandise against which the bills are drawn, has to go through a long process of transformation and manufacture, where much time is needed before the raw material is converted into that shape in which the dealer or consumer is ready to absorb it, and pay cash for it. Consequently the importer will allow his buyer sufficient time in which to settle his debt, the buyer on his part again extending a certain length of credit to the manufacturer. And it is the discount market that finances the importer, the dealer and the manufacturer, in each case a long time bill being drawn by the seller on the buyer.

Whereas the London discount market and for that matter any European discount market of prominence will perform the useful task, to quote an example, of discounting a bill drawn on London at Rangoon at 6 months sight against a shipment of rice to Bremen, New York is not placed in a similar position to help its importers. An American importer will, therefore, in most cases where he has to extend credit to his buyer, bring over his merchandise under a *London* letter of credit.

If we had a Central Bank of Discount, we need not go to London for banking accommodation in such a case. There would be a rate for 30, 60, 90 days and 4, 6 months drafts on *New York*, quoted at every trading centre in the world, owing to the fact that every bill so drawn could be counted upon to be discountable on arrival in New York, which at present is not the case.

Already the burden is becoming rather heavy for London to finance our foreign trade, although it is very profitable business for the English banker. But why should we not emancipate ourselves, finance our foreign trade ourselves, and incidentally earn handsome commissions which now go to Europe, thus swelling our foreign indebtedness. London will be no worse off in the operation, as any shortage of merchandise bills on London would probably be made up by finance bills.

There is no reason why New York should not become the banker of South and Central America, as well as of Canada. If we should succeed in this aim, our trade would indirectly be benefited by it, as it has always been found that a large amount of the money loaned to a foreign country is spent in the country making the loan. It is a matter of record that whenever London made a loan to a foreign country, England's trade with that country increased enormously. You see that in such a case, where America would make a loan to one of our growing sister repulics in South America, our industries and commerce would receive a great impetus.

Trade follows the flag, yes, if you have a merchant marine; but in our case, trade *and* the merchant marine could be made to follow finance, if we but chose to become the banker of the Western Hemisphere through a Central Bank of Discount, thereby creating a market for a broader Dollar currency exchange all over the world. As soon as 3, 4, and 6 months' drafts on the United States can be negotiated at all trading centres, we shall not only make ourselves absolutely independent of Europe financially, but incidentally we shall, by saving heavy bankers' commissions abroad, be able to import more cheaply, our own country reaping the ultimate benefit.

# Side Lights on Wall Street

By "KODAK"

WALL STREET is very blue. The continued and unbroken strain of unfavorable developments during the past two months has created much pessimism, and that the market has not suffered a greater decline is really remarkable. A perusal of many market letters shows that commentators are unable to find one single favorable development of importance on which to build optimistic hopes, but the one factor of the greatest importance and which seems to receive the least attention is the money situation, at least this is the opinion of some of the most prominent bankers in the Street.

One, of international prominence, says: "The greatest cause for uncertainty in security markets is the tightness of money the world over. In this country our supply of liquid money has been brought down to a very low point by industrial activity and withdrawals for European account. The situation is really serious, but it is much better than in any of the financial centers on the other side. Mainly because of the Balkan war and the unreasonable fear that other European nations will become involved investors in European countries, and more particularly in France, have been hoarding gold for months. Millions upon millions, and I may say hundreds of millions, have been taken out of circulation, and until the situation is remedied there will be a restriction in business and security markets will naturally suffer. The labor situation, the investigation of our banking system, agitation for Stock Exchange reform, tariff uncertainties, etc., are actually small matters in comparison with the world-wide stringency of money."

* * *

TERMS of the dissolution of the Harriman merger are wholly favorable to Union Pacific. This fact cannot be successfully combatted. Union Pacific purchases from the Southern Pacific $67,275,500 common stock and $17,200,000 preferred stock of the Central Pacific Railway for approximately $104,000,000. The preferred stock is limited to 4 per cent. dividends, but the common stock of the Central Pacific received 10 per cent. dividends in 1911, and there is every reason for believing that it could consistently maintain 8 per cent. common dividends. The property is in an excellent physical condition, its gross earnings per mile are approximately twice as large as those of the Union Pacific Company, its capitalization is relatively low and its strategic value cannot be measured in dollars and cents. Yet, figuring the preferred stock at $90 per share, or on a par with Union Pacific preferred, the common stock is being disposed of at $130 per share.

Southern Pacific will receive $78,000,000 net in cash from the transaction, as it owes the Central Pacific $20,000,000, which will be paid immediately upon the consummation of the deal. Yet there has thus far been no murmur of dissent from any of the minority holders of the Southern Pacific Company, and, while it is known that dissatisfaction exists, there is unlikely to be any organized attempt to block the transaction, as the plan has been already presented to the court and arguments will be heard on the 24th of February.

The holdings of Kuhn, Loeb & Co. and their foreign connections in Southern Pacific stock are small when compared with their holdings of Union Pacific common. Kuhn, Loeb & Co. own a large part of the preferred stock of the Union Pacific. There have been rather definite reports that this banking house owns an actual majority of the outstanding Union Pacific preferred shares. Mrs. Harriman owns only slightly over 1,000 shares of

Southern Pacific. Her holdings of Union Pacific are very big. I hear that they approximate upwards of $30,000,000, and so it is with the rest of the so-called Harriman crowd. The bulk of their holdings has always been in Union Pacific.

* * *

OTTO KAHN, of Kuhn, Loeb & Co., was quoted in cables from the other side as saying that this country is on the verge of an unprecedented boom in business, but he denies making such statements. The fact of the matter is that Mr. Kahn, who is one of our very shrewdest observers, takes a very conservative view of the outlook and is firmly of the opinion that prosperity will not become rampant until the policies of the new administration are definitely known and until there is greater ease in the monetary situation. According to his friends, he believes that fundamental conditions are exceptionally sound; that unfavorable factors are temporary in character; and his view of the outlook is said to be conservatively optimistic.

Mr. Kahn will remain in this country probably for the balance of the year, when, if he holds to his present intentions, he will return to Europe and may make his home there. I am informed that his retirement in the comparatively near future as a member of the firm of Kuhn, Loeb & Co. is practically a certainty.

* * *

I HEAR unconfirmed reports that President Underwood of the Erie recently received a very flattering offer to become the executive head of one of our large Western systems, but Mr. Underwood is wedded to the Erie, so to speak, and I doubt very much whether he could be induced to drop the reins of management of that system. He takes great pride in the property now under his care, and his ambition is to develop it unto our most efficient trunk line.

On one notable occasion it was difficult to induce Mr. Underwood to retain the presidency of the Erie. This was in the troublous times of 1907 and 1908, and coincident with the story of Underwood's desire to resign from the presidency of the Erie at that time I can give for the first time an interesting story of the threatened Erie receivership.

"Poor old Erie," as the road was then known, was practically bankrupt. Approximately $5,500,000 notes were maturing in April, 1908, and it was generally known that the road did not have the money and could not raise sufficient money to meet the maturing obligation. There did not seem one chance in fifty that the property could be saved. E. H. Harriman was, of course, fully cognizant of all that was going on, and he realized that if the Erie should go under, a long list of failures undoubtedly would follow. The situation was dangerous in the extreme. He therefore decided that heroic efforts must be made to save the property from receivership.

Therefore, on the day previous to the maturity date of the Erie notes, Mr. Harriman requested Judge Lovett, the present executive head of the Union Pacific system, who was at that time counsel for the company and Harriman's righthand man, to arrange a conference for that evening at Mr. Morgan's house with the partners of the Morgan firm. On arriving at Mr. Morgan's house around nine o'clock, Mr. Harriman and Judge Lovett found five of the partners of the Morgan firm and President Underwood of the Erie awaiting them.

Mr. Harriman opened the conversation by informing the Morgan partners that in his (Harriman's) opinion it was absolutely imperative that the Erie be saved, and he requested them to let him know what they intended to do towards meeting the notes which matured on the following day. He was informed that nothing could be done; that the Erie was doomed for receivership. The entire situation was discussed pro and con, and to the astonishment of the Morgan crowd Harriman finally made the proposition that if the Morgan banking house would furnish him with cash equivalent of the amount of maturing notes he would take care of the maturing obligation.

The Morgan partners went off to

one corner of the room and discussed the proposition. After due deliberation they came back and informed Harriman that it would be impossible for them to do as he requested, as the cash was not available. Harriman immediately arose and left the meeting in disgust. The situation then looked more hopeless than ever. It was plainly apparent that the Morgan firm would do nothing to save the Erie.

Harriman went home that night a very sick man. His physical condition was really weak, but he lay awake all night thinking of how the Erie and thousands of investors in this country and abroad might be saved. At eight o'clock the next morning Underwood appeared at Harriman's house and informed him that, at the meeting to be held that day, at which it was intended to declare the Erie bankrupt, he would present his resignation as president of the road. Harriman requested him not to do so; that everything would yet turn out all right, and, while the situation looked hopeless, Underwood acceded to Harriman's wishes.

The Erie Railroad directors met in J. P. Morgan & Company's office on the 18th of April, 1908, at two o'clock. President Underwood had just called the meeting to order and every one present thought that the only business to be taken up would be to declare the company unable to meet its $5,500,000 notes, maturing on that day. Receivership papers had already been drawn up; but, as the meeting was called to order, Judge Lovett, representing E. H. Harriman, was announced, and he delivered the following note:

8th April, 1908.

To the Erie Railroad Company:

For the purpose of enabling your company to pay its $5,500,000 notes maturing this day, I offer to purchase $5,500,000 of new 6 per cent. collateral trust gold notes, payable April 8, 1911, authorized by your Board at the price of 95 cents on the dollar, such price to be paid by me when and as, but only when and as, the same shall be required for and be applied to the payment of such $5,500,000 notes maturing today, and in consideration of the receipt of the new 6 per cent. collateral gold notes, secured as heretofore proposed, the notes and indenture to be substantially as considered and approved by my Counsel.

Immediately upon your acceptance of this offer you are to cause announcement to be made to the holders of your said notes, maturing today, that they may receive payment thereof at par in cash, or, until and including Wednesday, April 15, at their option, they will have the privilege to receive for their present notes at par new 6 per cent. collateral trust notes at par and also cash to the amount of 5 per cent. of new notes, less the interest accrued thereon. You may cause such payments and deliveries to them to be made out of the cash to be provided or out of the new notes receivable by me under this offer and its acceptance.

Yours truly,
E. H. Harriman.

The message was like a bombshell to the Morgan crowd. Harriman had raised the money that morning by applying to the Wells Fargo Express Company, which company was well supplied with cash.

## A Protest From An Optimist

**WOULDN'T it be refreshing to hear a president get up and make a speech about the high quality of American business men, and talk in an optimistic strain about the country's future, and about the great opportunities which exist in the business world and in every way, instead of all the time harping on the great injustices that exist throughout the land and on the fact that *something* is wrong? Was there ever a time in any country when *something* was not wrong? The fact is that so many things are right, and so many things of importance are being done that are worth doing, that the things that are wrong are more than overbalanced. It is getting tiresome to hear all this repetition about the ills which beset our people and about the terrible wrongs which are being committed in the name of "Business."—*Extract from a letter.***

# Forecasting Business Conditions

By LAWRENCE CHAMBERLAIN

Author of "The Principles of Bond Investment" and "The Work of the Bond House"

## Part I—The Purpose, the Materials, and the Method

### CHAPTER V—THE MATERIALS CLASSIFIED: BUSINESS CONDITIONS

BUSINESS conditions form the third and last phase to be considered in the round of the cycle. From the economic point of view everything in the world is either money or things purchasable with money. In the Banking group we dealt with money or its nearly-equivalent, short-term credit; in the Investment group, with long-term credit (bonds)—only distantly related to money—and stocks—still further removed from money, and a step nearer *things,* or commodities. Commodities are the material of the third or Business group, and the profit or loss in handling them is the incentive to, or deterrent from further expansion with its effect upon the other two groups.

If we choose typical commodities, or "things" to measure, we can detect and gauge the trend of business, come to some conclusion as to how far the direction and extent of this trend are being affected by banking and security conditions, and as to how far the present demand for commodities is likely to affect banking and security conditions.

#### PRICE AND THE MARGINAL SUPPLY.

If the demand for any commodity exceeds the supply, the price of that part of the commodity which is or can be made available for sale, will rise until either the demand is withdrawn because of the high price, or the higher prices with increased profits tempt capital to increase the supply to a point in excess of the demand.

Rising commodity prices, and business activity stimulated by them, attract capital and increase the demand for money, thus working toward an impairment of banking conditions. Lowering prices, and the business apathy they induce, by releasing money, relieve banking conditions.

#### THE CONFLICT OF PROFITS AND CREDIT.

But the causal relation is not so simple as this. Although higher prices and increased production create banking strain, at the same time the increased profits of increased business enlarge stock dividends and widen the margin of safety for both unincreased stock dividends and bond interest. Therefore on the upgrade of business, security conditions (and prices) vacillate between two influences; the increase of income or equities on the one hand, and the decrease of money support on the other. As to which of conflicting influences will prevail in any of the three phases at any time depends of course on their relative strength. That is why our statistical measurements must be accurate and correct in method.

"The profit forces of business thus normally tend to accentuate the cycles of business, investment and finance, at the high levels of business, to a point where the forces of financial strain overcome the stimulating forces of accumulating profits; at the low levels of business, to the point when the sustaining forces of financial ease overcome the reactionary influences of poor profits."

#### PROFITS IN THE PRESENT BUSINESS SITUATION.

Let us apply these principles to present conditions. Business this past year has shown more than normal activity, as the percentages in these pages have indicated. Commodity production (of crops, metals and manufactures) and transportation have been highly satisfactory as to volume. Moreover, prices have been high. But operating costs, and the cost of obtaining new capital on which to finance enlarged operations have been more than proportionately great, so that ***net profits from business this year have been distinctly sub-normal.***

Therefore, *this year,* in considering the state of business both as a cause and as an effect, *we must look harder at profits than at volume.* This year there is not the usual conflict in security prices on an advancing business activity, for *the volume of business is draining banking resources at the same time the lessened ratio of profits to capital is weakening security conditions.*

Looking at the same situation from the security standpoint, the price of securities is facing (1) a weak banking condition, (2) a strong business condition from the volume standpoint, but (3) a weak business condition from a profit standpoint.

### PIG IRON.

The business world accepts the iron and steel business as a leading "barometer of trade." The production, price and value of pig iron are the most significant figures in this business. A small volume of production is an index of industrial quiescence when new metal is in demand only for repairs and replacement. A large volume indicates not only repairs and replacements, but new construction and equipment.

The influence of an increase or decrease in production of pig iron on banking or security conditions is very much affected by the relation of the demand for the product to the supply. This relation is expressed in the price of the metal. The volume and the price determine the value of the product, which, to a considerable extent, determines the profit to the producer.

Price or value, in pig iron and in everything else, is as important as the volume. Some of our good friends who live near Cleveland can see nothing but bright skies now, for the iron furnaces and steel mills on the lakes are running at full capacity. Judged by this business alone they have reason to, for since the latter part of 1911 the increase in the volume of pig iron production throughout the country has not been so great as the increase in value; and at the moment both volume (2,700,000 gross tons a month) and value ($16.95 Southern No. 2 Foundry at Cincinnati) are headed toward abnormally large figures.

Although the value of production or manufacture is a more important single factor than the volume, nevertheless mere volume has its own significance. The same amount and cost of labor and transportation are involved for each unit of product irrespective of its selling price.

### COMMODITY VOLUMES AND VALUES.

Because of the intimate relation between iron and steel manufacture and the condition of building, machinery and other trades, we properly emphasize the importance of pig iron production and price. Quite possibly the future will see a comprehensive index of the aggregate volume of many important products and manufactures, also an index of their values; such as No. 2 Corn, No. 2 Wheat, and Middling uplands cotton, Lake Copper, produce and textiles.

### COMMODITY PRICES.

At present there is no direct and comprehensive presentation of the facts of commodity volume, but fortunately there are a number of indexes for commodity prices. Of the several published in this country perhaps the standard is Bradstreet's index of the average price of 96 commodities on the first day of each month. With such a large number of prices as a basis the trend of living costs and mercantile values can be accurately portrayed.

There is a great deal more to be read from such an index than most people realize. As suggested above, from the standpoint of the consumer the figures indicate the trend of the cost of living. From a broader economic standpoint they represent, by inverse variation, the purchasing power of gold. From the standpoint of production and distribution they represent the trend of profits in industry. But, we must remember again that labor and capital costs are equally important factors of industrial profits.

### OUTSIDE CLEARINGS.

Although there are no indexes of the volume or value of commodity production to correspond with that of commodity prices, we have two means of arriving at some idea of the volume of commodity transfer; namely, clearings and transportation. Clearings represent to some extent the value of commodity transfer. Transportation, in the figures for freight tonnage and "idle cars," rep-

resents the bulk of commodity transfer, so far as commodities are material things and not consumed at home.

In the previous chapter we discussed clearings at length and the necessity of separating New York Clearings from those of the rest of the country because of the abnormal influence of strictly banking and speculative conditions in the metropolis. "Outside clearings, which represent the returns from all other clearing house cities, relate more to the actual production and distribution of goods than to the financial transactions of capitalization and investment. With respect to outside clearings growth and reaction tend to be shown only as a proportionate part of the whole," making this index a measure of the general level of business.

RAILROAD EARNINGS.

Figures of passenger, or even freight traffic are not customarily offered for a study of fundamental conditions, to show the movement, and therefore the volume, of commodities offered. The reason is that transportation prices are sufficiently stable so that their fluctuations represent approximately the fluctuation in the volume of goods moved. Therefore gross earnings (more accessible than traffic figures) are an index of the condition of business in general, as well as of the railroad business.

However, we will do well to look further than gross, in railroad earnings, for transportation, like production, has its aspects of price and profit, as well as volume. If business profits are more significant than business volume, in their relation to banking and security conditions, then *we must bear in mind that from November, 1908, till March, 1910, net earnings increased in greater ratio than gross, but since that time net earnings declined more than gross and are decidedly below their normal ratio to gross.*

The extreme importance of railroad operations in the whole financial structure possibly may warrant a further step in the analysis of railroad earnings. The amount of net earnings and their ratio to gross is largely dependent on "maintenance charges," that is the amount put back into the road and equipment for its upkeep and improvement. If appropriations for maintenance were declining at a time when net earnings were declining also, the situation would be serious indeed. But the decline in net of which we spoke has been accompanied by a liberality in charges for property upkeep not in evidence before 1910, so that the net earnings index loses something of its sinister significance.

COMMERCIAL FAILURES.

Figures relating to commercial failures in the United States were among the earliest to receive attention from students of business conditions. The number of failures seemed most descriptive to some, the capitalization involved in failure to others, the unprotected liabilities to still others.

The number of commercial failures from month to month can be ascertained of the commercial agencies, and this monthly figure is more reliable than any other having to do with the subject of failures. The fluctuations of this number, as an indicated effect of previous business conditions, are easy to see. When conditions are unfavorable for the conduct of business, i. e., when money has been scarce, credit strained, and liquidation of securities has been in evidence, liquidation in business (or business failures) must follow. Naturally the number of failures in 1908 (following the panic of November, 1907) has not been reached since. But it may not be without a lesson that last year we fell not far short of the 1908 number, although the volume of 1912 business as indicated by clearings was very good—far larger than in 1908. Does not the factor of lessened profits explain the situation?

As a force, the number of commercial failures represents the general prevalence, if not the intensity, of commercial liquidation, which in turn relieves monetary and then security conditions.

MERCHANDISE IMPORTS.

Just as *intranational* commerce is measured by railroad transportation, *international* commerce is measured by shipment of merchandise, but the figures for imports and exports are already in the most significant shape, namely, in money value.

Imports naturally increase with growth in domestic buying power, which

will come during times of financial ease and investment activity. The effects of growth in imports, however, is much more constricting upon domestic money and credit than is similar growth in domestic business, since the payment for foreign articles is much more closely related to gold shipment, and under our banking system we do four dollars of credit business with every dollar of gold.

The figures for domestic imports are an excellent index of home demand for commodities, except in times of tariff agitation. It is quite probable that imports in 1913 will be far less than a full index of the 1913 commodity demand in the United States.

### MERCHANDISE EXPORTS.

Although the surplus buying power of the United States, or at least the inclination to demand articles of foreign manufacture, is increasing more rapidly of recent years than heretofore, and out of proportion to foreign demand for our own goods, nevertheless the converse effect of the two sets of figures is as true as one naturally would expect. In other words, as increase in the value of imports draws our gold supply, an increase in the value of exports tends to replenish it. A surplus of export over import value gives us a favorable trade balance and strengthens our gold position.

Therefore the most favorable tendency possible to American business is a growth in exports, for the increase in domestic activity occasioned by it does not tend to strain the financial or investment position, but a growth in manufacture destined for home consumption does.

The difficulty in relating the fluctuations in the value of United States Exports to the broad movements of the business cycle is that export conditions are dependent upon *international* supply and demand. The foreign factor may have little relation to the domestic factor. Nevertheless, the figures do show the

General Conditions
- Banking
  - Money
    - Gold
      - World's Supply of Gold Money.
      - United States Supply of Gold Money.
      - Sight Sterling Exchange at New York.
      - Reserves at New York.
    - All Money
      - Total Money Supply in the United States.
      - Total Money in Circulation in the United States.
  - Credit
    - Loans / Deposits / Loans to Deposits / Reserves to Deposits
      - All National Banks.
      - New York Associated Banks.
    - Interest Rates
      - Call Money.
      - 6 Months Collateral Loan Rate.
      - Commercial Paper.
      - Bank of England Discount Rate.
- Investment
  - Bond Prices
    - Municipal (?)
    - Railroad
    - Public Utility (?)
    - Industrial (?)
  - Stock Prices
    - Railroad
    - Industrial (?)
  - Clearings
    - At New York
    - Total United States
- Business
  - Pig Iron
    - Production
    - Price
    - Value
  - Commodity Prices
  - Outside Clearings
  - Railroad Earnings
    - Gross
    - Net
    - Maintenance Charges
  - Commercial Failures
  - Merchandise Imports
  - Merchandise Exports

same natural tendency in commodities as in securities; namely, to seek the most favorable market, which, in times of local stress, would be abroad.

Having now concluded the analysis and classification of material a synopsis of the entire subject matter may be useful, and is presented below.

In the next chapter we shall examine the very interesting modern statistical methods by which the immense and involved mass of material, which we have cursorily examined, is handled, so that the real essence is extracted from it, and presented in a way to be most easily appreciated.

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## SURVEY OF CONDITIONS.

BANKING conditions have begun again the slow retrograde movement suspended early in January by a short rally, particularly in rates for short term credit. However, the level now is no lower than in the Fall, except that reserves are at their lowest point in many months, owing to heavy shipments of gold abroad.

Security conditions are apathetic with a sagging tendency since last month and no rallying power. Most significantly, in view of proposed tariff changes, industrial stocks have fallen off most markedly.

Business conditions grow no better. Idle cars are increasing. The volume of clearings has lessened during the four weeks. We have no figures since January 17 for iron production, but at that time production and value were on the up grade. I expect the crest in that business will have been reached or passed by the next issue of this magazine.

| | Reserves at New York. | Loans to Deposits, New York. | Railroad Stocks. | Industrial Stocks. |
|---|---|---|---|---|
| Jan. 10... | 84.9 | 100.75 | 117.5 | 80.7 |
| Feb. 7.... | 81.8 | 101.09 | 116.8 | 75.4 |

| | Outside Clearings. | Idle Cars. |
|---|---|---|
| Jan. 3.......... | ..... | 17,100 |
| Jan. 10.......... | 109.0 | ...... |
| Jan. 31.......... | 106.2 | 37,300 |

Non-mathematical conditions, particularly politics at home and abroad, continue to grow in importance as factors in the situation. The outlook is less satisfactory than it was a month ago.

# To Holders of Stocks
## Which Are
# Listed on the New York Stock Exchange

THE proposed increase in tax on the sale of stock is not based on a just and equitable principle, but on the fact that "the State needs the money."

You, as residents of every State in the Union and of every other country on earth, are now contributing to the "needs" of the State of New York by paying a tax of $2 per hundred shares of stock sold.

For the additional $2 per hundred the State will contribute nothing to your advantage. On the contrary, it proposes to enact laws that will lead to a further narrowing of the market for your securities so that you will suffer additional loss in effecting a sale.

This tax increase, although aimed at the New York Stock Exchange, will not fall upon that institution, but upon you, the stockholders of corporations whose stocks are listed, even though you are non-residents of New York State.

The publishers of THE MAGAZINE OF WALL STREET, in the interest of you, its subscribers, all of whom are holders of securities thus affected, suggests that you address a letter of protest to Governor Sulzer, Albany, New York.

# Commodity Prices and Bank Reserves

## Effect of High Commodities on the Present Investment Situation

**By HALIBURTON FALES, Jr.**

**[The relation between the general level of commodity prices and the accumulation or dissipation of bank reserves, as brought out in this article and the accompanying diagram, is exceedingly interesting. It is a new idea, at least in the form here presented.—Ed.]**

THE interrelations of money, securities and business are always interesting.

Mr. Chamberlain, in his articles, has pointed out the relationships of various classes of securities to either money or business, each of which factors plays a lesser or greater part in affecting the price changes of individual securities.

Accompanying this article is a chart upon which are placed the total money reserves of the New York Associated Banks, the average price of ten railroad bonds, the average of ten railroad stocks, and Bradstreet's commodity prices.*

On examining these graphics, one immediately notices that movements in the reserves precede movements in bonds, which anticipate stock movements, these in turn preceding the movements of commodity prices.

Securities should be regarded simply as a part of general business, which, as it relates to money, represents either a potential supply of, or demand upon, capital, viz., reserves.

Securities, being in more liquid shape than general business, lead the procession in the movements of business.** They have a tendency to absorb idle capital when such capital is thrown off by declining business, as well as to provide a source whence capital may be secured by business when it is extending. So much for preliminary explanation.

Examine the graphics closely and notice that the movement of commodity prices is reciprocal to that of bank reserves. When commodity prices decline, less of the nation's capital is required to handle the commodities. Therefore a great deal of money is released from general business requirements, and piles up in bank reserves. As commodity prices advance, more and more money becomes necessary to finance the commodities at the higher prices, and this money is drawn from the bank reserves, causing them to fall as commodity prices rise.

Thus there occurred in 1904, a low point in commodity prices, and a high point in bank reserves; in 1907 a high point of commodity prices and a low point of bank reserves. The alternate appearance of these phenomena occurred in 1908, 1910 and 1911, until at the close of 1912 we had high commodities and low reserves.

The importance of commodity prices, as they affect the present situation, will be appreciated when it is realized that the present prices are the highest for thirty years and that the high points of 1903 and 1904 were the highest since 1900.

Our next point for general remark is that bond prices cease to advance shortly after the rise in commodity prices has proceeded far enough to draw down the volume of bank reserves; that they decline very rapidly once the lines representing reserves and commodity prices move apart from their point of intersection; and begin to rise as soon as a sufficiently lower level of commodity prices permits of an increase of bank reserves.

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*The diagram is made up, month by month, from the actual figures, none of which are here analyzed for seasonal changes. This is somewhat misleading in the bank reserves, as the last three months of the year always show a coniderable loss from the year's average. Thus the reserve position began relatively to improve in the middle of 1903, although the last quarter shows considerable depreciation in the actual. As judged by the non-seasonal analysis, reserves reached their low point in June, 1903, and not in November, and in May, 1910, rather than in December, 1909, and about the first part of August, 1911, rather than in December. This point I have brought out because, as a usual thing, movements in the reserves precede movements in the bond prices, and by use of the non-seasonal analysis we still find this to be true.

**Professor Irving Fisher estimates the amount of capital employed in securities to be only about 10% of the total amount employed by all business. The volume demand accordingly must be about 9 or 10 times as great, which is an additional reason for the prior movements of securities.

The point of intersection of the reserve line and commodity price line, when commodities are advancing, appears to approximate the approaching end of the bull market in bonds, or to herald a decline.

Observe the former to have been the case in 1904-5. In 1909 and again in 1912, the pronounced downward movement of bond prices started shortly before the time when rising commodity prices crossed the downward movement of bank reserves.

The point of intersection on the reserve movement does not appear to be of any great value in indicating the turning point of bond prices to higher levels. In 1907, although the turn had come but two months before the intersection of these lines, the rise was half over in the better class of bonds. Apparently the tendency of bonds to reflect or to discount maintained improvement of reserve conditions was a sufficient reason for the rise.

The first part of the rise in 1907 may have been to some extent a rally from an over-sold condition, but only to a slight extent—why did not bonds rise in 1910 and 1911? As far as I can see the answer lies in a peculiar difference in the way in which the forces of supply and demand work upon securities and commodities respectively, as will be explained a little further on.

The function of money is investment. Normally it is constantly seeking employment. Accordingly, a large volume of idle money on hand is the same thing, relatively speaking, as a condition of underinvestment. Investment means buying, and buying raises prices. A great supply of capital, which means low interest rates, tends to create a demand for bonds, for stocks, and for commodities in turn, each giving way to the advance of the one succeeding, until prices, business, and commodities have advanced to such heights as to have exhausted supplies of capital. Conversely, high prices and low, or falling reserves, foretell a coming over-supply of bonds, of stocks, and commodities, each in turn.

Stocks occupy, accordingly, an intermediate position, between bonds, and commodities and business; their prices being dependent partly on the money market and partly on the prosperity of the industries which they represent. Thus we see that *the high point of stock prices precedes the high point of commodities* by six months or more in each instance, and the same is true of the low points.

The low points of the stock market are generally made as a result of tight money; consequently the low points of stocks and bonds frequently come at the same time—stocks usually a little later, and the "pups" later still. But the high point of stocks comes six months or a year later than the high point of bonds, because stocks are still feeling the bullish effects of commodity prices, which at this time are still rising.

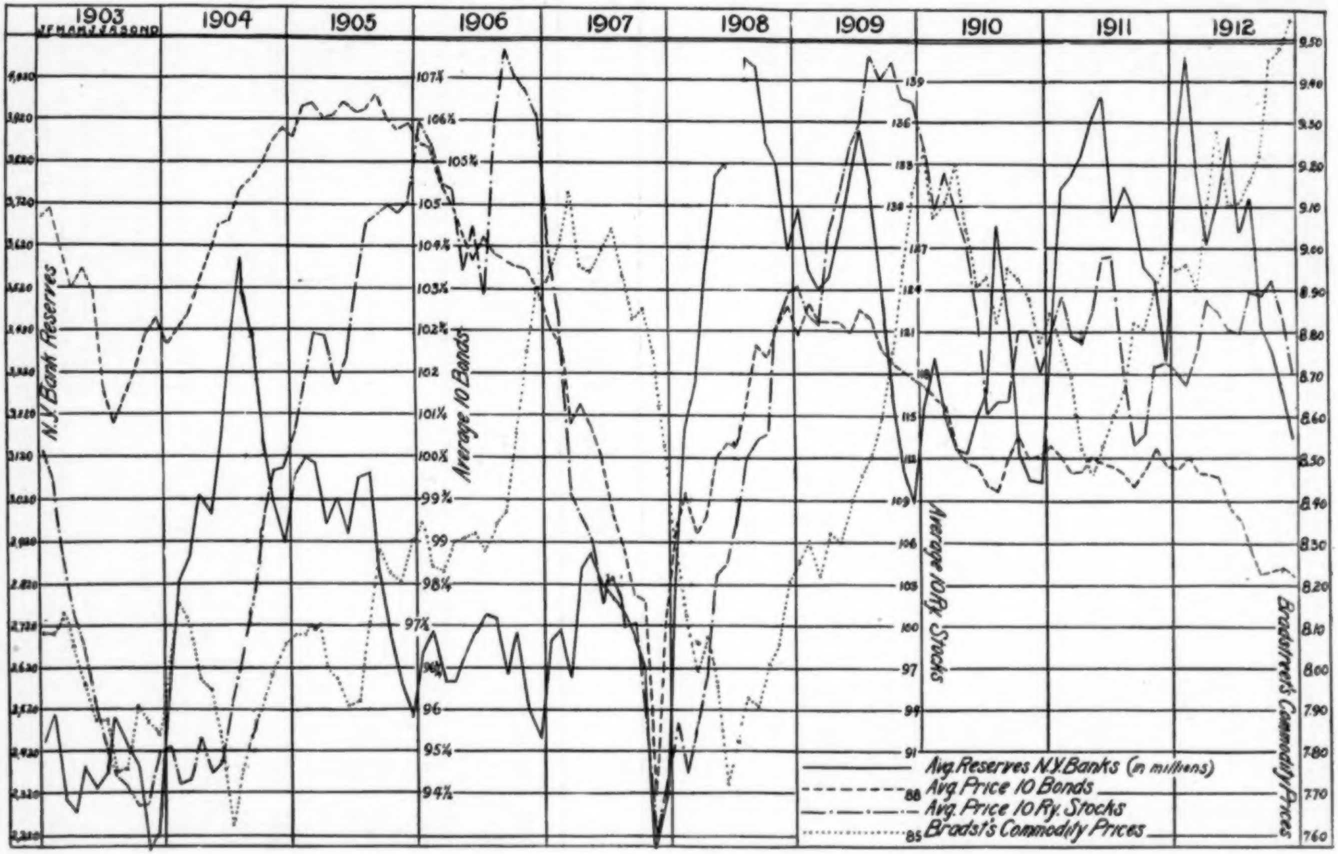
The changes in supply and demand as stimulated by the variations in the volume of reserves, work equally upon securities and commodities; but both securities and commodities also possess distinctive sources for changes of supply and demand. The source of greatest importance and interest is as follows:

The supply of securities, or rather the volume of securities, is necessarily fairly constant, since the volume of new securities issued has but a small, although fluctuating, proportion to the whole amount outsanding. The demand for commodities, especially those used for food, clothing and shelter, is fairly constant. They are subject to frequent variations in supply, but there is a point below which the necessity demand cannot fall, and the narrower the margin by which this necessity demand is covered, the more do prices for such commodities tend to rise.

Thus, although stocks and bonds nearly always liquidate under the influence of an inadequate money supply,* such commodities as are produced by the soil and are absolute necessities (especially wheat, corn, and cotton) may not liquidate if their supply is low, *even if the money supply is itself low.*

That this phenomenon has occurred, a glance at the graphic will show. Its occurrence, and attending consequences, together with several other events, has undoubtedly been the cause of the pecul-

*Importation of $100,000,000 in gold and exchange by Harriman, and manipulation of the market and sentiment by the raising of the Union Pacific dividend from 6% to 10%, stimulated demand to uphold the stock market during 1906—with disastrous consequences in 1907.



1903
1904
1905
1906
1907
1908
1909
1910
1911
1912
N.Y. Bank Reserves
Average 10 Bonds
Average 10 Ry. Stocks
Bradstreet's Commodity Prices
Avg. Reserves N.Y. Banks (in millions)
Avg. Price 10 Bonds
Avg. Price 10 Ry. Stocks
Bradst's Commodity Prices

iar movements in both stocks and bonds during the past three years, which has been characterized by declining bond prices, and by erratic and poorly sustained advances of small amount in stocks.

High commodity prices stimulate imports and tend to lower the balance of trade. Thus they deplete the money supply in two ways—directly, through their high prices, and at the same time indirectly, through the balance of trade.

The effect which high commodity prices have had upon reserves and balance of trade, and through them upon securities, has been further augmented in recent years by exhaustion of capital in such enterprises as the building of the New York Barge Canal, the Panama Canal; in harbor improvement work in California and the Gulf States, in preparation of the opening of the Canal; in vast issues of securities here and abroad; by the extraordinary demand for gold from Egypt, India, China, and South America; and by the fact that, following a temporary liquidation of business because of apprehension due to the trust suits in April, 1911, the money which then piled up sought employment abroad.

As most of these general demands for capital may be continued for some time, I do not see how we can have anything approaching a boom in securities or business, until we have a thorough liquidation of commodities in this country, and a resulting accumulation of capital.

From an analysis of the diagram it is plain that the investor will be considerably aided by keeping the lines up to date and using the chart as a help to judgment in buying and selling securities. At the close of the year 1912 the diagram seemed to indicate plainly that prices of securities would continue on a generally downward course until after a decided decline in the level of commodity prices has taken place.

# Points for Investors

IN considering a railroad bond always look to the factor of how much the road has been spending on maintenance per mile. There is a reasonable comparison that may be made with other roads and there is a fair average against which the road's expenditures may be checked. This factor has a large effect on the net earnings, which are the earnings against which bond interest runs.

* * *

BE highly discriminating in purchasing the newer preferred stocks which are being offered frequently. There is a wide difference in quality. See to it that there is a wide enough margin in earnings applicable to dividends on the preferred stock, not so much in the average that can be struck over a number of years, but over the immediate past several years.

* * *

DON'T believe that you can purchase poor securities, preserve them until a severe decline in the general security markets takes place and then easily hypothecate them in loans to buy more. It may work, but very likely it will not be successful. It will only be the best on which you can borrow to any extent and then none too easily.

* * *

IF you are buying or selling a very inactive security remember that the published quotation may have been made some time in the past and that the actual market may be somewhat different from those figures. For that reason your broker should do as much shopping as possible before closing the trade for you.

* * *

THERE is a fair chance of making a profitable purchase of bonds of a corporation that is putting out new securities, especially if those new securities will be immediately junior to a moderate sized issue of bonds that have been out a while. The older bonds will get the benefit of market support that the bankers will give in order to favorably affect the new ones.

# BOND DEPARTMENT

## What an Investor Ought to Know

### XII—Some Facts Study of a Railroad Balance Sheet Reveals

**By FREDERICK LOWNHAUPT**

**[Under the above title we are presenting a series of articles treating fundamental facts that are either never learned by many investors or apparently overlooked in the purchase of investments. Without a knowledge of the basic principles underlying the science of investment, rational selection is impossible. The aim of these articles is to give facts in readable form—facts which in themselves are technical, but which, co-ordinated, explained and placed in proper relation to each other, are both interesting and easily understood. The subject discussed in the February issue was "The Structure and Significance of the Balance Sheet."]**

IN the previous article of this series we gave consideration to the general scope and significance of a balance sheet, whether it be of a railroad, industrial corporation, public service corporation, or other concern. In that discussion it was pointed out just what items composed the balance sheet and briefly how they stood in relation to each other.

It is comparatively simple to understand the various items that go to make up a balance sheet, especially when they are arranged after the most approved fashion. With railroads a certain fashion has been set through the standards laid down by the Interstate Commerce Commission, which gives the railroads a prescribed form to follow in presenting their figures. This form is practically the one that is presented to the stockholders in the annual report.

Taken alone, the balance sheet of a railroad for any one year does not disclose nearly so much information as when the figures of that year are put in comparison with those of the year previous or with those of a series of years.

A glance at the balance sheet of a railroad is not sufficient to disclose the value of the exhibit. There must be some study and probably some further analysis of items that are directly related to those in the balance sheet or items which are summarized very briefly.

The great majority of investors look immediately to the income account of a corporation for the clue as to the strength or value of a security; and in a large sense they are correct in assuming that this is the principal index to the safety of their investment. But even this statement is subject to some modification when the railroad bond is under consideration.

This modification also applies when there is a lack of harmony between the condition of the income account and the showing of the balance sheet in respect to the current position of the road.

In explanation of this it may be said that it has happened that a road was showing good current earnings, although at the same time its current position as shown by the balance sheet was in anything but a favorable condition. Under such circumstances one would likely be misled by depending upon the indications given by a study of the current earnings alone. There are usually several months of each year when any road has improving income,

and if this were the situation just after the line had had several months of depression, it could easily be imagined that a strong brace in income would give a special brightness to that side of the picture.

The moral from this is to analyze the current position of the road. It is upon the current liabilities the structure may break. That is to say, in studying the balance sheet of a road, see first whether the cash position is strong or weak with respect to the excess of current assets over current liabilities. The immediate cause of many troubles in the railroad world is the anemic condition of the property. It is in a poor cash position and therefore may not be able to stand the test when called upon to do new financing to get money for refunding obligations that have become due, or to prosecute works of improvement.

It will thus be seen that there is a vital relationship between the cash position of a railroad and the stability of its securities. This relationship lies in the strength or weakness that is imparted by the balance sheet showing. Suppose a company has a weak current position and must do some financing very shortly. It is evident that the road will have to pay heavily for its funds; or, if it is so weak that it cannot accomplish satisfactory financing, or can do none except at ruinous cost, it is evident that the near fate of that property is the receiver's hands. It will not be altogether sufficient that this road show two or four months or even six months of good earnings, for in this there would be no guarantee that the pace could be maintained.

The proper study of the balance sheet, therefore, involves a consideration of this vital relationship between the current position of the company and the requirements of the company in the immediate future. If the company shows a weak cash position and in the near future must do some financing, it is evident that the condition of the money market at that time will be a determining factor in the situation.

When considering the cash position of a company it is of particular interest to note just what the treasury assets are that are available for sale to procure funds for meeting maturing obligations or for other requirements. This is a factor of vital importance. The critical student of the balance sheet of the railroad makes a careful analysis of the securities available either for outright sale, such as bonds that have been authorized and issued but are available in the treasury for sale, or securities that are available for hypothecation in loans.

Just how all this affects the investor who already holds securities of the company may be seem from the fact that there is a direct relation between the cash position of the company and its credit position. And its credit position is the determining factor in the situation when maturng obligations are to be met or new financing accomplished. The value of a comparison of statements over a series of years becomes plainly evident when it is considered that a company must show a sustained favorable cash position accompanied with a sustained and favorable showing in earnings, if it is to enjoy sustained and favorable credit.

It will be understood from what has been said already that the cash position is shown in the working or current assets. Many investors labor under the mistaken idea that the profit and loss surplus has something vital to do with the cash position of the company. Often an investor is heard to remark on the size of the profit and loss surplus shown in the balance sheet, which, if very large, conveys the impression to him that the company is an infinite distance away from difficulty.

It cannot be repeated too often that the surplus in the balance sheet of a railroad, or in fact of any other corporation, is nothing more than the balancing entry to make the two sides of the balance sheet coincide. The surplus does not mean that the company is better off in cash than is actually shown in the working or current assets. Generally speaking, a very large proportion of the profit and loss surplus is represented by various items scattered over the asset side of the sheet, a large part of which may be wrapped up in the property account; that is, tied up in assets that could not possibly be liqui-

dated in a moment of urgent need for ready money. Of course, if a considerable part of this surplus is wrapped up in treasury securities—that is, securities which may be readily sold—so much the better, for under these circumstances the cash position is the stronger.

There is still a third consideration, somewhat of a bookkeeping matter, but nevertheless interesting to the student of the position of a company as disclosed by the balance sheet. It is in the so-called deferred debit items. They are put on the asset side of the sheet, but they are designated as deferred with good reason. The average investor looking over the balance sheet is not at all clear just what these items mean.

In the railroad sheet nearly all of them represent money that has been advanced to subsidiaries and which the lending or parent company expects to get back some day. Now the lending or advancing is done for two general purposes: For meeting current needs, as, for instance, interest money on the subsidiary company's bonds, if that company cannot earn enough of itself; or for building or developing the subsidiary company's property. If the money is advanced for the latter purpose, the lending company expects some day to get the money back by funding the same; that is, by issuing securities to cover the transaction. If the advances were made for interest money or other current expenses, the parent company just has to wait for the return of its money. There are many cases where the wait will be very long.

There is a certain railroad system which has a subsidiary that last year had a deficit close to a million dollars. The advances each year for several years have been close to this figure. With the parent company not too prosperous, it will be a long cry before these advances, which can be ill spared, come back. A little study of these features of a balance sheet is always profitable.

# Bond Market Topics

**CORPORATIONS Recognize Conditions.**—Probably one of the most significant developments over recent months is embodied in the corporation financing that has been done since the first of the year. The month of January was one of tremendous activity in corporate financing, there having been nearly four hundred millions of dollars of new securities brought out or announced during that time for early issue. This vast amount constituted a record total for many months. There is considerable interest in that fact alone for it would seem to indicate a revival of security buying or at least responsiveness to new issues quite unknown for some time. The main point of interest in the situation, however, is the fact that the corporations seem to have come rather far toward a complete realization that securities must yield a substantial income to the investor if they are to be sold readily. Heretofore there has been some very pronounced reluctance on their part to issue new bonds at the prevailing low levels.

The corporations have been hanging off constantly waiting, as they hoped, for betterment in money conditions and a marked improvement in security conditions. They have recognized the fact that the investing public was falling heels over head for the vast amounts of preferred stocks that were being offered, and they had hoped once that obsession was past there would be some substantial demand for higher grade securities. After it has become practically impossible to wait much longer for their new funds they have come into the investment market with a rush, resulting in a flood of securities in January as has not been seen in a long time. February has also seen much financing, although the previous month's total will doubtless stand higher.

Of course, the large amount of dividend and interest money afloat in January was some factor in the situation, but beneath it all was a very definite realization of many corporations that further wait was useless;

*(Continued on page 322.)*

# The Bond Buyer's Guide

IN the following table are arranged in order of yield the principal active issues of bonds listed on the New York Stock Exchange, the income being figured at the latest available selling price for lots of 20 bonds or more. They are divided into groups, according to the grade and character of the bonds.

**This table will appear monthly, and will prove invaluable to bond buyers, as well as to brokers and to all others who are called upon to select or recommend investments. It is presented for purposes of comparison only, and mention of a bond issue is not to be construed as a recommendation. Our object is merely to show the relative yield of different bonds of each of the several classes.**

**(1) High Grade mortgage bonds, many of which are legal investments for New York State Savings Banks.**

| Description. | Due. | | Interest Period. | Price Feb. 14. | Yield. |
|---|---|---|---|---|---|
| Chic., Rock Is. & Pa., ref. g. 4s | Apr., | 1934 | A.—O. | 87¼ | 4.94 |
| Ore. Short Line, guar. ref. 4s | D., | 1929 | J.—D. | 91⅝ | 4.74 |
| B. & O., P. L. E. & W. Va. Sys., ref. 4s | N., | 1941 | M.—N. | 89⅜ | 4.68 |
| **Wabash, 1st g. 5s** | **My.,** | 1939 | M.—N. | 105⅞ | 4.61 |
| Colorado & Sou., 1st g. 4s | F., | 1929 | F.—A. | 93¼ | 4.55 |
| B. & O., Southw. Div., 1st g. 3½s | Jl., | 1925 | J.—J. | 90¼ | 4.53 |
| **Wisc. Cent., 50-yr. 1st gen. 4s** | **Jl.,** | 1949 | J.—J. | 91 | 4.50 |
| Ches. & Ohio, gen. g. 4½s | Mch., | 1992 | M.—S. | 100½ | 4.48 |
| St. Louis S. W., 1st g. 4s, bd. ctfs | N., | 1989 | M.—N. | 89⅞ | 4.47 |
| **Balt. & Ohio, prior 3½s** | **Jl.,** | 1925 | J.—J. | 91 | 4.45 |
| Ches. & Ohio, 1st cons. g. 5s | My., | 1939 | M.—N. | 108¼ | 4.43 |
| Atch., Top. & S. F., Short L., 1st g. 4s | Jl., | 1958 | J.—J. | 92 | 4.41 |
| **Mil. Spar. & N. W., 1st gu. 4s** | **Mch.,** | 1947 | M.—S. | 93½ | 4.37 |
| Northern Pacific gen. lien g. 3s | Ja., | 2047 | Qu.—F. | 67½ | 4.37 |
| Un. Pac., Ore. Ry. & Nav., con. g. 4s | Je., | 1946 | J.—D. | 93¾ | 4.36 |
| **So. Pac. R. R., 1st ref. 4s** | **Ja.,** | 1955 | J.—J. | 93¼ | 4.35 |
| C. B. & Q., Illinois Div., 3½s | Jl., | 1949 | J.—J. | 85⅛ | 4.31 |
| Chic., Rock Is. & Pa., gen. g. 4s | Ja., | 1988 | J.—J. | 93½ | 4.29 |
| Atl. Coast Line, 1st g. 4s | Je., | 1952 | M.—S. | 95⅛ | 4.26 |
| Gt. Northern, 1st & ref. 4¼s, Ser. A | Jl., | 1961 | J.—J. | 100½ | 4.23 |
| Chic., Burl. & Q., gen. 4s | Mch., | 1958 | M.—S. | 95½ | 4.22 |
| **Cent. Pac., 1st ref. gu. g. 4s** | **Ag.,** | 1949 | F.—A. | 95⅞ | 4.22 |
| Chic. Mil. & St. P., gen. g. 3½s, Ser. B | My., | 1989 | J.—J. | 83⅞ | 4.21 |
| **Union Pacific, 1st & ref. 4s** | **Je.,** | 2008 | M.—S. | 95⅛ | 4.21 |
| **Illinois Central, 1st ref. 4s** | **N.,** | 1955 | M.—N. | 96 | 4.20 |
| **Chic. & N'wes., gen. g. 3½s** | **N.,** | 1987 | M.—N. | 84 | 4.20 |
| Cent. of N. J., gen. g. 5s | Jl., | 1987 | J.—J. | 118⅝ | 4.18 |
| **Reading Co., gen. g. 4s** | **Ja.,** | 1997 | J.—J. | 96⅝ | 4.15 |
| Balt. & Ohio, gold 4s | Jl., | 1948 | A.—O. | 97½ | 4.14 |
| Chic. & N'West, gen. 4s | N., | 1987 | M.—N. | 97 | 4.13 |
| **N. Y. Cen. & H. R., g. 3½s** | **Jl.,** | 1997 | J.—J. | 85½ | 4.12 |
| **Atch., Top. & S. Fe., gen. g. 4s** | **O.,** | 1995 | A.—O. | 97½ | 4.11 |
| **Louisville & Nashville, uni. g. 4s** | **Jl.,** | 1940 | J.—J. | 98¼ | 4.11 |
| Northern Pac., prior l. g. 4s | Ja., | 1997 | Qu.—J. | 97½ | 4.11 |
| **Norf. & West. Ry., 1st Cons. g. 4s** | **O.,** | 1996 | A.—O. | 98½ | 4.06 |
| **Chic., Mil. & St. Paul, gen. g. 4s, Ser. A** | **My.,** | 1989 | J.—J. | 98½ | 4.06 |
| **Un. Pac., 1st R. R. & land grant g. 4s** | **Jl.,** | 1947 | J.—J. | 99¼ | 4.04 |

**(2) Collateral trust bonds selling at prices relative to the great value of the underlying collateral.**

| | | | | | |
|---|---|---|---|---|---|
| Chic., Rock Is. & Pa. R. R. 4s | N., | 2002 | M.—N. | 64 | 6.10 |
| Gt. Northern, C. B. & Q., coll. tr. 4s | Jl., | 1921 | J.—J. | 95¼ | 4.68 |
| Lake Shore, coll. g. 3½s | F., | 1998 | F.—A. | 78 | 4.52 |
| Atl. Coast L., L. & N., coll. g. 4s | O., | 1952 | M.—N. | 90⅞ | 4.50 |
| So. Pac. Co., g. 4s (Cent. Pac. coll.) | Ag., | 1949 | J.—D. | 95¾ | 4.23 |

**(3) Convertible bonds having no mortgage lien whose quotations are governed largely by the price changes of the stock into which they are convertible.**

| | | | | | |
|---|---|---|---|---|---|
| Erie, 50-yr. conv. 4s. Ser. B | Apl., | 1953 | A.—O. | 76 | 5.49 |
| Ches. & Ohio, conv. 4½s | F., | 1930 | F.—A. | 91¾ | 5.24 |
| Erie, 50-yr. conv. 4s, Ser. A | Apl., | 1953 | A.—O. | 81 | 5.12 |
| Southern Pac. Co., 20-yr. conv. 4s | Je., | 1929 | M.—S. | 90½ | 4.86 |
| Del. & Hud., 10-yr. conv. deb. 4s | Je., | 1916 | J.—D. | 97¾ | 4.62 |
| N. Y., N. H. & H., conv. deb. 6s | Ja., | 1948 | J.—J. | 124 | 4.61 |
| Union Pacific, 20-yr. conv. 4s | Jl., | 1927 | J.—J. | 94⅞ | 4.49 |
| Atch., Top. & S. Fe., 10-yr. conv. g. 5s | Je., | 1917 | J.—D. | 102⅝ | 4.28 |
| Atch., Top. & S. Fe., conv. 4s (issue of 1910) | Je., | 1960 | J.—D. | 101 | 3.95 |
| Norf. & West. Ry., 10-25-yr. conv. 4s | Je., | 1932 | J.—D. | 109 | 3.36 |

**(4) Debenture bonds most all of which are selling on high level because of the good general credit of the respective companies.**

| | | | | | |
|---|---|---|---|---|---|
| N. Y. Cen. & H. R., deb. g. 4s | My., | 1934 | M.—N. | 90¾ | 4.70 |
| Lake Shore, deb. g. 4s | S., | 1928 | M.—S. | 92⅜ | 4.70 |
| Lake Shore, 25-yr. g. 4s | My., | 1931 | M.—N. | 92¼ | 4.64 |
| Chic., Mil. & St. Paul, conv. 4½s | Je., | 1932 | J.—D. | 103 | 4.27 |
| N. Y., N. H. & H., conv. deb. 3½s | Ja., | 1956 | J.—J. | 85 | 4.21 |

**(5) Semi-investment bonds, many of which are general mortgages, often classified as "business man's" investments. Income yield is reasonably definite index of relative worth.**

| | | | | | |
|---|---|---|---|---|---|
| Wabash, 1st ref. & ext. g. 4s | Jl., | 1956 | J.—J. | 58¾ | 7.06 |
| Seaboard Air Line, adj. 5s | O., | 1949 | F.—A. | 73⅞ | 7.00 |
| St. Louis & San F. R. R., gen. 15-20-yr. 5s | My., | 1927 | M.—N. | 80½ | 6.93 |
| Missouri Pac., 40-yr. g. loan 4s | Mch., | 1945 | M.—S. | 70⅛ | 6.10 |
| N. O., Mob. & Chic., 1st ref. 5s | Ja., | 1960 | J.—J. | 85½ | 5.87 |
| K. C., Ft. S. & M. Ry., ref. g. 4s | O., | 1936 | A.—O. | 76¾ | 5.83 |
| Missouri Pac., 1st & ref. conv. 5s | S., | 1959 | M.—S. | 87⅜ | 5.76 |
| St. L. S'West., cons. g. 4s | Je., | 1932 | J.—D. | 80¼ | 5.72 |
| St. L., Ir. M. & S. uni. & ref. g. 4s | Jl., | 1929 | J.—J. | 82 | 5.69 |
| St. L. & S. F. R. R. ref. g. 4s | Jl., | 1951 | J.—J. | 75⅝ | 5.54 |
| Chic. Gt. Western, 1st 4s | S., | 1959 | M.—S. | 76⅞ | 5.35 |
| Erie, 1st cons. gen. lien g. 4s | Ja., | 1996 | J.—J. | 75½ | 5.32 |
| Southern, devel. & gen. 4s, Ser. A | Apl., | 1956 | A.—O. | 78 | 5.30 |
| Wabash 2d. g. 5s | F., | 1939 | F.—A. | 99 | 5.07 |
| Norfolk Sou., 1st & ref. 5s, A | F., | 1961 | F.—A. | 99 | 5.06 |
| West. Maryland, 1st g. 4s | O., | 1952 | A.—O. | 83⅜ | 4.96 |
| Colorado & Sou., ref. & ext. 4½s | My., | 1935 | M.—N. | 94 | 4.95 |
| Denver & Rio Gr., 1st cons. g. 4s | Ja., | 1936 | J.—J. | 89½ | 4.76 |
| Southern, 1st cons. g. 5s | Jl., | 1994 | J.—J. | 106 | 4.71 |
| N. Y., W'ches. & B., 1st Ser. I, 4½s | Jl., | 1946 | J.—J. | 97¾ | 4.63 |

the public wish still a rather high rate of income—the corporations simply had to meet the case.

**Better Investment Conditions Generally.**—The way the current year began raised the hopes of the investment houses high. Among all the bond sellers there was a unanimous declaration that business had begun very auspiciously early in the year and that there were some underlying indications that it would continue strong for a time. There seemed to be evidences that investors were surfeited with 7 per cent. preferred stocks and were turning to bonds again for that reason, at any rate, if not for more substantial reasons. In expectation of this better demand the bond houses put out more voluminous circulars and houses that neglected this aspect of publicity for a time sent out lists. Indeed one prominent house in the Middle West sent out a rather fulsome pamphlet definitely saying that the turn in the market had come. The strength of these conditions did not continue right through February, but there was nevertheless an underlying tone that bid fair for continued improvement for some time. The index of change that was seized upon by many was the upturn in the average price for standard bonds. Although this did not go far it was believed to be the strong indication of a change in conditions earnestly hoped for for a long time.

**Convertible Bonds Again.**—With three issues of convertible bonds totaling practically $150,000,000, $82,000,000 of which were railroad bonds, a new wave of this type of security may be said to have been set in motion. The significance of this amount is appreciated when it is realized that these three issues, consisting of $63,250,000 Baltimore & Ohio, $65,000,000 American Telegraph & Telephone and $19,000,000 Norfolk & Western bonds, constituted practically one-third of the enormous bulk of new financing done in the early weeks of the year. That the railroads appreciated the psychological moment to come into the market is very evident from their action. In the first place their position with respect to earnings and general showing gave them a lever, for with an open winter, giving reduced operating expenses, and with traffic pouring on the lines, they have been for some weeks in a position to make a strong bid for capital. Over against this happy circumstance, however, they have had to face the fact that prices in the security markets have not been attractive and they have had to sell their securities on a much more attractive basis to the public than heretofore. For instance, a year ago the N. & W. sold convertibles to stockholders on a 4 per cent. basis, whereas the new ones went on a 4.35 per cent. basis. But of the two evils of selling low or going without the money still longer the former, which is the lesser, was chosen.

**Opportunities in Low Priced Bonds.**—Further evidence that the investment market generally became healthy early in the year is to be found in the quotations for second rate listed bonds. Generally the change in this class of security follows immediately on the upturn in the better grades of bonds. It was so this time. But the opportunities to pick up some acceptable profits were not apparent to the many until these second rate securities had jumped some. Taking the middle of December of last year as the low point in their quotation, in about six weeks the average price of about ten of these bonds rose three points. These ten bonds ranged from about 55 to 88 when at their lowest prices, recovering in one instance 7½ points and, as stated, averaging three points advance. Among this class of bonds there are many that constitute rather acceptable investments with not so much risk. A careful selection at the right time, such as was the situation last December, offers some of the most excellent opportunities to get bonds that are very unlikely to default on their interest and yet have a wide margin over which they may advance in price when conditions improve.

# PUBLIC UTILITIES

## Public Utilities and the Cost of Living

By OLIVER CARROLL

UNDER the caption of "Lighting, Living and Income," one of the bond houses of New England recently worked out a short study showing the dividends that have been paid by gas and electric companies over a period of seven years, the cost of gas and electricity to consumers and the general rise in the cost of living. The arguments to show that the stocks of properly managed service corporations offer excellent opportunities for a substantial and steady income on money invested therein. The curves presented are based upon reports of the Massachusetts Board of Gas & Electric Light Commissioners so far as the prices of gas and electricity are concerned and the amounts paid in dividends, while the cost of living figures rest upon figures given for household commodities in market reports.

Beginning the study at a common figure, the result presented shows that during the seven years the cost of living increased about 37 per cent., the amounts paid in dividends by the gas and electric companies increased some 112 per cent, while the prices of gas and electricity were reduced almost 17 per cent. Says the house: "Perhaps the most striking feature of the situation as shown by the curves is the variance that has taken place in the seven years between the amounts paid in dividends by the gas and electric companies and the price of the commodities sold by these companies. This variance brings out a tremendously significant fact, viz., the ability of gas and electric companies to increase returns and reduce selling expenses simultaneously, thereby insuring a fast-hold on present business and making certain a large future gain in the amount of business done.

"The second striking feature is the variance between the cost of living and the cost of gas and electricity. Notwithstanding the fact that the prices of coal, foodstuffs, shoes, clothing, etc., have increased over one-third in the seven year period, the price of lighting has been pushed down one-sixth."

Now the first of these conclusions, that is, that the gas and electric companies can reduce selling expenses yet increase returns, is a moot question. There are firms of dealers in public utility securities that will bring forth much data in support of this contention. The advocates of the theory of reducing prices to consumers in order to stimulate a larger bulk of business and at the same time increase earnings, are not a few. The theory is well grounded in the minds of some close followers of the public service corporation development, and they can produce some very notable examples to seemingly prove the theory. At least, a number of illustrations can be given supporting the statement that to reduce the rate does not necessarily mean a reduction of earnings or income.

Take, for example, the instance of the Laclede Gas Company in St. Louis. In April, 1911, this company reduced its gas rate some 20 cents per 1,000 feet. Yet the company has not suffered. As a matter of fact, under the new schedule of rates it is quite able to care for itself physically and still be able to take care of its dividends. If another illustration were necessary it might be the case of the Consolidated Gas Company in New York City, which, as we all know, has not starved to death since it was forced to reduce its rate for gas to 80 cents, although its 1912 showing was not quite as good as its figures for the year previous.

These illustrations, along with others, can be cited to show that reduction of the rates for the commodities of the public service corporations, however it may affect the corporation immediately, eventually does little or no harm and in many cases positively develops earnings.

The point of our story, however, is that the public service corporations are among the very few that have not advanced the cost of their product and thereby advanced the cost of living. On the other hand, there has been a strong movement toward reduction all over the land. Take, for instance, the case of the State of New Jersey. In that State when the Public Service Corporation, the largest distributor of the State, reduced its rate for electric current, the companies throughout the State followed. This movement was voluntary. And so have the reductions in various parts of the country been entirely voluntary, although it must be said that in many instances it was a matter of anticipating what seemed imminent. State commissions throughout the land have taken to studying this question of the charges of public service corporations and in various instances have ordered the charges reduced, while in others they have not had an opportunity to do so, inasmuch as the corporations themselves have taken the initiative.

Particularly is this so in the case of gas rates. Probably the reductions in this service have been most pronounced. Old rates for gas were undoubtedly high in many places. The past five years have not seen many or drastic reductions, although the previous five years saw many such bring the average rates all over the land down probably 10 per cent.

Of course it has been impossible to reduce the cost of the five-cent street car fare. Everyone in touch with the situation affecting the street railways knows that the cost of operation has been steadily climbing and the street car companies have been heard pushed in many instances to maintain their position, gained when costs were lower. The rigidity of their compensation has been their difficulty. It is an almost impossible proposition to get the rate of fare above the five-cent mark, a mark established many years ago, and as much by reason of the fact that we happened to have such a coin in circulation as by any other.

There have been a few sporadic cases where the rates of fare have been advanced, but they have been so very few as to be negligible or the result of special circumstances. The case of the Hudson & Manhattan lifting its fare for certain of its runs to eight cents is a case in point. On the other hand, there have been decided attempts every once in a while to reduce the fare on street railways in parts of the country. Three-cent fares have been advocated in several places, and six tickets for a quarter have also been among the outcroppings of efforts to reduce the cost of living to the people.

From all that has been said, it will be obvious that so far as the public utility corporations are concerned, there has been a decided tendency to lower costs to the consumer. It may be true that in many instances this lowering amounted to nothing more than the bringing the level of rates down to a reasonable basis, but that is another matter.

Even in the case of telephone and telegraph rates there have been reductions. Around New York City the former have been reduced, as have through rates in many instances. Still again, telegraph rates have been brought down, as witness the night letter and the day letter. There is hardly a spot in the whole fabric of public utility corporation activity where there has not been some greater or lesser change in the past five years, always for the better of the consumer. Contrast this with other conditions, for instance, in the steam railroad situation. Here we have had increases in freight rates all over the country, and the railroads are continually crying to be permitted to go further.

# Public Utility Notes

**Great Western Power Co.**—The company has applied to the State Railroad Commission of California for permission to issue bonds sufficient to yield $3,971,731 to complete construction of the great dam and reservoir at Big Meadows and to provide for new equipment and extensions.

**Los Angeles Power Sales.**—An amended offer to purchase on a meter basis all the power that may be generated by the aqueduct power plants has been submitted to the city council by the three local power companies. Recently the city turned down the offer of the power companies to pay the city annually $1,000,000 for 35,000 electrical horsepower. The amended offer is to the effect that the companies will enter into a contract with the city for the purchase of all the electrical horsepower about to be developed by the city at its proposed power house, delivered at the city's substations in Los Angeles in quantities as needed by the consumers and that the companies will pay 65-100ths of a cent per KW hour meter measurement. Under this plan it is estimated the revenue derived by the city would be approximately $750,000 annually.

**Power for Utah.**—Application has been filed by St. Louis capitalists with the State engineer of Utah for the appropriation of water from the Green River for power purposes. They plan to organize a power company to distribute power throughout Utah.

**More Power for Reno, Nev., and Vicinity.**—California capital is backing a $3,000,000 enlargement of the Mono Valley Power & Light Co. to supply power to Reno, Nev., in competition with the Truckee River General Electric Co.'s plant.

**Electric Railway Growth.**—Reviewing the great development of the electric railway in the United States over the past two decades, a recent article gives, among others, the following figures: In 1882 there were only 3,000 miles of street railway in the United States; in 1888 electricity was first used as a motive power; in 1889 there were 8,000 miles of street railway. In 1913 there are about 43,000 miles carrying between ten and eleven billions of passengers annually, owning 90,000 cars, employing more than 250,000 persons, representing capital investment of five billions of dollars with a gross annual earnings of about $500,000,000.

**New Dividend.**—The Commonwealth Power, Railway & Light Company, one of the large public utility holding companies of the Middle West, has paid an initial dividend of 1% on its $12,000,000 common stock. The company was organized early in 1910 taking over the stock of various companies operating in the State of Michigan. The principal one among the controlled companies is the Consumers Power Co., which, it is stated, has been among the first to distribute electrical energy over long distances at high voltage. It was the first company to distribute in excess of 100,000 volts. In 1912 it placed in operation a line carrying 140,000 volts.

**Increased Dividend.**—A quarterly dividend of 1½% has been declared on the outstanding $6,360,054 common stock of the Consolidated Gas, Electric, Light & Power Co., Baltimore, which increases the rate from 5% to 6%. The company has sold to bankers $2,311,000 general 4½s, principally for the retirement of notes on March 1.

**Bond Offering.**—A syndicate headed by A. B. Leach & Co. have purchased and are offering at par the $5,000,000 1st mortgage 5% bonds of the East Ohio Gas Co., which were recently authorized by the Ohio Public Utilities Commission. The bonds are part of $25,000,000, of which $20,000,000 have been issued. The remaining $5,000,000 cannot be issued until the company increases its capital stock.

**Public Utility Equipment Obligations.**—The Philadelphia Equipment Securities Co. has been organized to issue car trust bonds secured by equipment trust certificates created by electric railways in connection with their purchases of equipment. The organizers believe by this method that the street railway equipment issues heretofore lacking somewhat in attractiveness to investment bankers owing to smallness of size will be made the basis of readily marketable securities partaking of the desirable features for which the equipment issues of steam railroads have been noted. A. E. Newbold and H. G. Lloyd of Drexel & Co., G. H. Frazier of Brown Bros. & Co., and E. B. Smith and T. Newhall of E. B. Smith & Co., are directors. The Securities Company will agree with electric railway companies that can furnish satisfactory statements of earnings and resources to create car trust certificates on such cars, trucks, motors and complete equipment as they may require for general use, but only to an amount equal to say 75% of the cost of the cars and equipment. The railroad will pay the cost, say 25% in cash at once and the balance in 20 equal semi-annual installments, thus covering the full requirement for principal and half year interest on the certificates. The railway will be required to guarantee the certificates and the Philadelphia Equipment Securities Company will deposit them when so guar-

anteed with a trust company as security for its own 5% bonds maturing one-tenth annually. During 1912 orders were placed for over $3,000,000 worth of electric cars, being 50% over 1911.

**Philadelphia Rapid Transit Company.—** The Finance Committee of the City of Philadelphia has reported favorably an ordinance permitting the company to make a new car trust agreement covering its entire purchase of new cars in order to secure an issue of not exceeding $4,200,000 car trust certificates. The ordinance further provides that the company may from time to time provide for additional equipment by further leases and agreements which may be made the basis of further issues of car trust certificates and to guarantee the payment of such certificates with the dividend warrants such issues not in any case to exceed 80% of the cost of said equipment.

**Southern California Edison Company.—** The State Railroad Commission has authorized the company to issue $2,500,000 additional bonds. Of the proceeds over $1,000,000 is to be used to complete a unit for the Long Beach steam plant and the remainder for additions and improvements to existing stations and hydro-electric facilities, new transmission and distributing lines and the construction of an addition to the general offices in Los Angeles.

# Regulating the Sale of Securities

## Investment Bankers Association Formulates Draft of Bill

THE Board of Governors of the Investment Bankers Association adopted a resolution in February stating in part the following:

"That people dealing in securities in bad faith should be put out of business is now a conspicuous object of public desire and one of the definite purposes of this association. . . . . .

"For many months the Association has been studying the state of the law throughout the country whether new legislation of any type, specifically upon this subject, would improve the existing means of accomplishing the desired end. This Association believes that the present law in some States is inadequate. . . . . . The facts about the manner in which the investment business of this country is carried on ought to be considered with great care by those drafting "Blue Sky" bills. Because it has this information this Association is in a position to suggest a type of "Blue Sky" law which will cause as little embarrassment to honest dealers with whom no one desires to interfere, as may be, without impairing the effectiveness of the measure."

This in substance is the contents of the resolution adopted, which was followed by the drafting of such a bill in outline. The point is that the Association offers its bill to the various State legislatures for adoption. It is not expected that the bill will be accepted *in toto* throughout the country, but it is expected that it will furnish a guide for the promulgation of such legislation in the various States.

The general plan of the bill is to give some State officer or commission a right to issue an order to any dealer not to offer in the State securities which seem not to be offered in good faith. In order to remove any apprehension of arbitrariness the draft expressly provides a right of appeal to the courts.

The filing of certain definite information as a prerequisite of doing business in the State, except in specially exempted securities, is provided for.

The proposed legislation makes it the definite business of some State officer to watch carefully securities offered for sale in the State and to make any dealer under suspicion of not acting in good faith furnish full information and otherwise submit to investigation.

The bill is intended to apply to all who make a business of dealing in securities, including banks and brokers, and is to include all securities except federal, government, State and municipal securities, which are a recognized class of investments outside the scope of this legislation, as well as various other high-grade and recognized issues, such as are available for savings banks investments in the States of New York, Massachusetts and Connecticut.

The draft of the bill is rather comprehensive and takes account of the many considerations involved in a countrywide legislative program, leaving to the various legislatures the prerogative of modification and adaptation to peculiar circumstances and local conditions.

The Investment Bankers Association has had under consideration something like this for some time, and has other measures likewise which it will doubtless bring out from time to time to improve the status of dealing in securities, and to throw about the multitude of investors untrained and unversed in the technicalities of finance, the safeguards that have been a crying necessity for so long.

# INVESTMENT DEPARTMENT

**INVESTMENT: The placing of capital in a more or less permanent way, mainly for the income to be derived therefrom**

## Investing for Profit

### A Review of General Principles and Practical Methods

**By G. C. SELDEN**

**Author of "Psychology of the Stock Market," etc.**

**[It is believed that this article on the bank statement, which will be concluded next month, contains the most careful statement yet made of the theoretical basis and the practical application of the Deposit-Loan Graphic, which is used by many investors.]**

### VIII—When to Buy and When to Sell, as Shown by the New York Bank Statement

IN investing for profit, the element of time is the most important—even more important than selecting the securities of a growing company. What is the right time to buy and the right time to sell? This is the main question which must always be present in the mind of the investor.

Within the last five years a great deal of attention has been devoted to "Fundamental Statistics," so-called, in the effort to arrive at the time to buy and the time to sell by an analysis of the statistical situation from week to week or month to month. We have now available from various sources a great variety of statistics covering the money market, banking conditions, crops, prices and production in numerous lines of industry, etc.

The students of these fundamentals are undoubtedly doing a most valuable work, and are laying the foundation for a far more intelligent analysis of financial and industrial conditions in the future than has ever been possible in the past; but it cannot be said that they have as yet had any striking success in forecasting the trend of the stock market. Half a dozen or more of them are now making public the results of their studies, and it unfortunately happens that they are very rarely found to agree. As they are all pursuing similar methods, this tends to cast a doubt on the accuracy of their results.

A year or more ago I studied and charted for a period of ten or fifteen years all the so-called "fundamental" statistics.

Most of these studies were thrown into the waste basket because, however interesting and suggestive the statistics might be to the business man, they shed no light on the future of the stock market. Such figures as combined railroad earnings, iron production, merchandise imports and exports, etc., and even to some extent bank clearings, move in lines following the stock market or contemporaneous with it. They do not, so far as I can discover, shed important light on the future of the market, except in a very indirect and inconclusive way.

This is not said in depreciation of the value of such statistics. They are most important in their bearing on the business situation and should be watched by every business man who aspires to be well informed. But they do not predict the stock market.

This should occasion no surprise. It is a generally accepted fact that the market discounts future events, that the prices of stocks anticipate all great changes in the activity of business, and afford a better index to coming developments than can be obtained in any other way. Yet the same student who admits all these things is very likely to be heard referring to declining railway earnings, for example, as a bearish influence on the stock market. Future railway earnings will, of course, seriously affect the market, and if you have any way of finding out what they will be, good for you—go ahead; but past railway earnings are like past prices—interesting, but no longer affording opportunities for profit in the market.

I found, however, one great factor which precedes stock prices, and that is the accumulation or dissipation of idle capital. It is the machinery of the stock market, which, directly or indirectly, supplies great business enterprises with the money to buy locomotives or structural steel or lumber or what not, and with money to pay out as wages in the enlargement of their plants or the building of new ones. The money thus put into circulation is the life-blood of the body politic. It gradually spreads through every artery of traffic, stimulating activity and growth. Hence why should we seek in industry the key to the stock market? It is capital that gives the initial impulse.

But the first resting place of this money as it accumulates, before ever it reaches the stock market, is in the banks. And when such capital ceases to accumulate or even begins to shrivel away, it is the banks that pay it out. Hence we may expect in banking conditions some anticipatory reflection of the movements of the stock market.

It is therefore very desirable for the investor to study banking conditions carefully and to keep his knowledge of the banking situation as closely up to date as possible. In order to bring out clearly the methods by which this may be done, it is well to review briefly the fundamental principles of banking.

A bank is a dealer in credits. It exists primarily for the purpose of accepting deposits. For these it sometimes pays a small rate of interest, or it may pay for them indirectly by the safety and convenience afforded the depositor. To insure the repayment of these deposits when called for, the bank is required to keep on hand a certain per cent. of its deposits in cash. It is then free to loan out these deposits on satisfactory security. There are, then, three elements in the situation: deposits, cash reserves, and loans.

The cash reserve must not be less than a certain fixed proportion to deposits, and this fact also places a rough limit on loans; for each loan increases the general supply of credit and this credit soon turns up somewhere else in the form of a deposit. Thus the growth of loans is ordinarily accompanied by a growth of deposits, and the growth of deposits is limited by cash reserves.

But this relation between deposits and loans is a very elastic one. The bank may loan not only its deposits but also, if it desires, a part of its capital, surplus, undivided profits, and its issue of currency. Hence in a time of great activity, loans will forge ahead of deposits, and when the contraction comes, loans will fall faster than deposits.

Phrases commonly met in the newspapers are "the over-extension of loans," "an over-extended banking position," etc. These phrases are misleading. The safety of a bank is indicated by the proportion of its cash reserve to its deposits. Can it pay on demand? That is the important question. Of course a loan on insufficient collateral or to a person whose credit was poor would endanger the bank just as any other mismanagement would. But the mere expansion of well-secured loans does not endanger the bank. On the contrary, it is good and profitable banking.

The danger from "over-extension of loans" arises from the opposite side—

that of the borrower. When loans increase much more than deposits, it shows that the business men of the country are increasing their current liabilities as compared with their quick assets. Such a condition is unhealthy and cannot proceed very far without resulting in embarrassments and failures.

We need, then, to study the relation between deposits on the one side, and cash reserves and loans on the other. By a systematic examination of these factors we discover not only the condition of the banks themselves, but also, to a very large extent, the condition of the depositors in these banks.

This point is worth bringing out still more clearly, as it does not seem to be generally appreciated. The relation of the banks to their customers may be called reciprocal. If the banks have relatively large deposits, that means that business men have turned over to the banks large sums of money for which they have at the moment no other use—their surplus, we might put it. On the other hand, if the loans of the banks are more extended than usual, this means that business men need the money—that their current operations are requiring more money than they have at immediate command. These additional supplies of money (of course I am using the term money here in the ordinary commercial sense, meaning liquid capital) may be needed because of a rapid increase in the volume of business transacted, or because business is being done at less than customary profit, so that business men are getting "hard up."

The banks cannot increase their deposits or loans at will. Their function is receptive. Their deposits and loans reflect the prosperity or adversity of their customers. A study of the banking situation gives an index not only to the relative strength or weakness of the banks themselves, but also to the soundness or unsoundness of general business conditions.

Thus the feature of banking which interests us most is the expansion and contraction of credit. Since modern business is done so largely on credit, we find in credit something of a guide to business conditions, therefore to the probable profits or losses of the corporations doing the business, and thence to the value of their stocks as recorded on the Stock Exchange.

To estimate the effect of the expansion and contraction of credit on stock prices, we must first arrive at some approximate measure of credit. Of course it is not possible to measure credit exactly, as it may be extended by all kinds of banks and trust companies, by private bankers, or by individuals.

The broadest indication we have of the condition of credit is found in the statements of all the national banks in the United States as reported to the Comptroller of Currency at Washington, whenever he calls for them, usually five times a year. State banks and trust companies operate under the same general conditions as the national banks, so that an extension of credits by one class of institutions all over the country is practically certain to be accompanied by a similar increase among the others. Likewise private bankers and private individuals, although not subject to the same restrictions in regard to cash reserves as the banks, find it impossible to enlarge their credits to any important extent when the banks are contracting, and have no inducement to contract when the banks are expanding.

The condition of all national banks, therefore, now numbering about 7,400 and having aggregate resources of nearly $11,000,000,000, is a pretty reliable index of the state of credit.

A difficulty arises here, since these reports are compiled only five times a year, and at somewhat irregular intervals, and the complete statement is never available sooner than thirty days after the date for which reports are made up. In fact, a delay of six weeks sometimes occurs before this information reaches the public. Therefore, in keeping track of the Comptroller's reports for all national banks, we are always four to six weeks behind actual conditions, and at times we are likely to be three or four months behind.

As the stock market is generally credited with being somewhat ahead

of current conditions, in the effort to discount the future, it is plain that bank returns several months old will not answer our purpose.

But the statement of the New York banks and trust companies included in the clearinghouse is available every week, and the actual condition of Friday is given out at noon Saturday. The cash reserves of the New York Clearinghouse institutions in September, 1912, were over $564,000,000, while the cash held by all national banks in the United States was $895,000,000. For the same month the total bank clearings of New York City were $7,430,000,000, compared with $5,730,000,000 for all the rest of the United States.

Roughly speaking, we may say that nearly half the banking business of the country is done by the New York clearinghouse banks, and this certainly should be a large enough proportion to shed important light on the credit situation.

Moreover, the New York banks are far more intimately connected with the stock market than those of other cities. Practically all sales of stocks and bonds on the Exchange are primarily paid for by checks on New York banks, and nearly all loans on New York stocks as collateral are made by New York banks. This is, of course, the principal reason for the prominence of the clearinghouse banks in the financial situation; and it also establishes a close connection between those banks and the stock market.

As every one knows, two bank statements are given out every Saturday—the "average" and the "actual." In the "average" statement each item is the sum of the daily totals of that item for the six business days, Saturday to Friday, divided by six; that is, the statement shows the average condition of the banks for the six days. The "actual" statement gives the exact figures at the close of business on Friday. This has been made public only since January, 1908.

Still more recently the principal trust companies have also been admitted to the clearinghouse, so that the bank statement now commonly published in the newspapers includes both banks and trust companies. These combined figures have not been given out long enough to permit of satisfactory comparisons with previous years; hence for that purpose we are obliged to confine ourselves to the New York clearinghouse banks, excluding the trust companies. The statement for the banks alone is published every week in the Saturday edition of the New York *Evening Post,* the Sunday *Times* and other papers.

We have seen that the one great factor observable in current statistics which precedes the movements of the stock market, is the accumulation and the melting away of liquid capital which is lying temporarily idle in the banks. The accumulation of such capital is indicated by rising deposits and stationary or falling loans, and its dissipation is shown by rising loans or falling deposits.

For example, take the conditions following the panic of 1907. General business was suddenly checked by the great difficulty, and, indeed, for a time, the impossibility of getting credit. As much less business was being done, less capital was required to handle it, so that early in 1908 idle capital began to pile up in the banks, in the form of both cash and deposits. Loans, on the other hand, showed a tendency to decrease, as it was not necessary for business men to borrow much money to handle the small amount of business then doing.

The banks all over the country found idle money accumulating in their hands, and as soon as they became satisfied that panic conditions were over, they began forwarding this idle capital to their banking connections in New York City, where they could get a small interest on it and could recall it whenever needed at home. This forced the money rates at New York down to a low level, so that speculative investors could borrow money very cheaply with which to carry stocks.

Now it is to be borne in mind that the prices of stocks are made by those who wish to buy or sell. The thousands of investors who hold their stocks for income only and never enter the market, have absolutely no influence on prices

—so long as they do not buy or sell. Hence this liquid capital which is continually flowing back and forth from general business into Wall Street and out again, has an influence on prices entirely disproportionate to its actual amount.

When this capital is available, it is pretty sure to be used before long in bulling the stock market. When this capital is withdrawn, high money rates result and prices must soon come down. Big speculators may attempt to fight against high interest rates for a time, but if they persist they eventually come to grief; for general business can pay a higher *time* (not call) rate for money than the speculator can. In other words, prices are advanced on the Stock Exchange with the surplus capital which is left over from general business requirements, and general business will always take the money away from the stock market as soon as it is needed for other purposes.

Absolutely the first place where idle liquid capital makes its appearance is in the banks, and when this capital becomes busy again it disappears from the banks.

In the next chapter we will take up the practical application of the principles above explained.

(*To be continued.*)

# How Short Selling Helps Investors

THE great turning on of light as to the methods and usefulness of the Stock Exchange which has resulted from the investigations of the Pujo Committee is bound to eventuate in much good. It will not only cause the correction of some admitted evils, so far as it is possible to reach them either by necessary legislation or by direct action of the Stock Exchange authorities, but it will give the public a far better understanding of the work of the exchanges than it has ever had heretofore.

One of the things most frequently criticized by those who have given the subject but little thought, is the practice of selling short; that is, selling stocks not now in the possession of the seller, but which he knows he can obtain later, out of his own safe deposit vault, or from a distance, or by buying them in the market at New York or elsewhere.

The newspapers have stated that Mr. Bernard M. Baruch, recently elected a member of the Law Committee of the Board of Governors, is making a special study of the economic functions of short selling. Having devoted some little attention to this subject ourselves, we recently wrote Mr. Baruch the following letter, which is self-explanatory:

Mr. Bernard M. Baruch,
Member of New York Stock Exchange,
New York City.

DEAR SIR:

It is currently reported that you are interested in the preparation of some statement or article discussing the usefulness to society of short selling on the Stock Exchange.

There is a phase of this subject which has never been touched upon, so far as the writer is aware, except indirectly in various articles in THE MAGAZINE OF WALL STREET. It is this:

***The fact that short sales, by permitting an increase in the activity in the market, tend quite strongly to lessen the fluctuations of stocks, can easily be demonstrated with absolute and indisputable certainty from an examination of statistics.***

The main facts in this matter were presented in two articles which appeared some time ago in this magazine: "The Usefulness of the Stock Market to Society," July, 1911; and "Does Speculation Steady the Market?" September, 1911. For your convenience we will summarize these articles in this letter and bring the statistics down to date.

The objection commonly urged against short selling is that it permits the bears to depress prices unduly by unlimited sales of short stocks, thus facilitating manipulation, encouraging the gambling kind of speculation, and causing wild and erratic fluctuations in prices. The large sales from week to week of stocks in which a considerable short interest usually exists, are pointed to as evidence of this increased speculation, which is considered by those raising the objection to be a bad thing for society.

Now almost everyone will agree that the principal function of the Stock Exchange is to afford a ready and, so far as conditions permit, a relatively stable market for the buyers and sellers of securities. The question then is, where is the best and most stable market found, in stocks where there is an active trade and a considerable short interest, or in stocks where there is very little business except of a strictly investment character and in which, therefore, little or no short interest exists?

So far as the immediate market is concerned, this question can be answered by merely turning to the "bid and asked" columns of the daily papers. It will be found that the active stocks can at any time be sold at a price only ⅛ (or 12½ cents a share) lower than the price at which they can be bought; while in the inactive investment securities the bid and asked prices are often wide apart.

Turning to this morning's paper, we find, for example, that the buyer of U. S. Steel common would have paid 63⅞ at the close last night, while the seller could have obtained 63¾; and so with other active stocks. But Adams Express was 140 bid and 150 asked, General Chemical 175 bid and 200 asked, and so on.

It is, of course, freedom to sell short that enables traders to establish an active market for any stock. If they could sell only the stocks which they had in their possession at the moment, all outside buyers would have to pay relatively more for their stocks and all outside sellers would obtain less. The usefulness of the short interest to the immediate buyer or seller is therefore self-evident.

Next, how about the man who has occasion to buy stocks one year and sell them the next year? Will he find a more stable market in those stocks where a considerable short interest usually exists, or in stocks where the short interest is customarily very limited or entirely non-existent? In other words, are the broad fluctuations greater in the active stocks, or in those where only a strictly investment business is done?

To test this question statistically, we will separate the stocks of twenty standard dividend-paying railroads into two groups, each group distributed so far as possible over the whole country. The two groups are intended to be as similar as possible in every way, except that the first group comprises the ten more active stocks out of the twenty, and the second group the ten less active stocks. Activity, as here used, is measured by the relative volume of trade from day to day and the closeness of the market as shown by the customary spread between bid and offered prices. It is also an appropriate measure of the customary extent of the short interest in these stocks.

The table herewith shows the principal railroad stocks divided into two groups on the above plan and gives the high and low prices of the last four broad general movements of the market. The total of these four swings shows the aggregate fluctuation of each stock, both up and down.

**Standard Dividend-Paying R. R. Stocks—Relatively Active.**

| | High, 1905-6. | Low, 1907-8. | High, 1909. | Low, 1910-11. | High, 1912. | Total of 4 swings. |
|---|---|---|---|---|---|---|
| Atchison | 110½ | 66 | 125⅜ | 90¾ | 111¾ | 159½ |
| B. & O. | 125⅛ | 75⅜ | 122¼ | 93½ | 111⅞ | 143¾ |
| St. Paul | 199⅝ | 93½ | 165⅛ | 105¾ | 117⅝ | 249 |
| Ill. Cent. | 184½ | 116 | 162⅛ | 124 | 141⅛ | 169⅞ |
| L. & N. | 157⅜ | 85½ | 162½ | 130¾ | 170 | 219⅞ |
| N. Y. Cent. | 156¼ | 89 | 147¾ | 99⅞ | 121½ | 195½ |
| Penna. | 148 | 103½ | 151¼ | 118⅜ | 126¼ | 133 |
| Reading | 164 | 70½ | 173⅜ | 130⅝ | 179¼ | 287¾ |
| Union Pacific | 195⅜ | 100 | 219 | 152¼ | 176¾ | 305⅝ |
| Southern Pacific | 97½ | 63¼ | 139⅛ | 103¼ | 115½ | 158¼ |
| Average | 153.8¼ | 86.2⅝ | 156.7⅞ | 114.9⅛ | 137.1⅝ | 202.2⅛ |

**Standard Dividend-Paying R. R. Stocks—Relatively Inactive.**

| | High, 1905-6. | Low, 1907-8. | High, 1909. | Low, 1910-11. | High, 1912. | Total of 4 swings. |
|---|---|---|---|---|---|---|
| Atlantic Coast | 170 | 58 | 143½ | 102½ | 148½ | 284½ |
| Buff., Roch. & P. | 159 | 68 | 105 | 95 | 119½ | 162½ |
| Central of N. J. | 239⅞ | 144 | 323½ | 248 | 395 | 497⅞ |
| Northwestern | 249 | 126 | 198½ | 137¼ | 145 | 264½ |
| C. C. C. & St. L. | 111 | 47½ | 83¼ | 48⅛ | 62½ | 148¾ |
| Del. & Hud. | 240¾ | 123⅝ | 200 | 149¼ | 175½ | 270½ |
| D., L. & W. | 560 | 369½ | 680 | 490 | 597 | 798 |
| Hocking Valley | 135 | 62 | 126 | 10? | 150 | 209 |
| M., St. P. & S. S. M. | 164 | 60 | 149½ | 114 | 154½ | 269½ |
| Frisco 1st pref. | 81¼ | 42 | 74 | 58 | 69½ | 98¾ |
| Average | 210.9⅞ | 110.0⅝ | 208.3¼ | 154.4⅛ | 201.7 | 300.3⅞ |

St. Paul, Northwestern, Northern Pacific and Great Northern have all given rights to their stockholders, which rights were still included in the high prices of 1905-6. This makes the fall from the high of 1905-6 to the low of 1907-8 appear greater for those stocks than was really the case. We have endeavored to equalize this matter between the two groups by including St. Paul in the first and Northwestern in the second, and omitting the other two stocks. However, the St. Paul rights were more valuable than those issued by Northwestern, the highest price of the former being 35½ and of the latter 22⅞. This, of course, tends slightly to increase the average fluctuation for the first group of stocks.

It was also found necessary to include in the second group of stocks one first preferred issue, since the common stock of the 'Frisco road is not a dividend-payer. The fluctuations of this preferred stock were relatively smaller than those of the common stock of the same road. This fact tends slightly to reduce the average fluctuation of the second group of stocks.

Another point to be observed is that six of the active stocks in the first group are situated in comparatively undeveloped sections of the country, where changes in value are likely to be greater than they are under the more settled conditions of the East and North, while only four of the stocks in the second group are so located.

So far as any inequalities exist in the two groups, therefore, they tend to increase the fluctuations in the first group or to decrease the fluctuations in the second group. Yet when we come to take the average fluctuation of the first ten stocks, we find it to be only 202 points, against an average of 300 points for the second or inactive group. That is, the fluctuations of the active stocks in which a considerable short interest exists (either all the time or at intervals) are found to be only two-thirds as great as the fluctuations of similar inactive stocks, in which there is little or no short interest.

The short interest acts as a sort of buffer, preventing unreasonable advances and affording support on sharp declines.

The objection may be raised that the stocks in the second group average higher in price than in the first group and therefore would naturally fluctuate more widely. It is by no means true, of course, that stocks customarily fluctuate in proportion to their prices. Low priced stocks are, as a rule, of less certain value than high priced stocks, so that their fluctuations are much wider in proportion to price.

Nevertheless, to meet this possible objection, we will calculate the per cent. of the total fluctuation to the *lowest point* of these average prices during the period covered by the table. We find the per cent. of 202.2 to 86.2 to be 234 per cent., for the more active stocks; and the corresponding per cent. for the less active stocks is 273 per cent. So that even by this somewhat unreasonable method, the stocks containing the short interest show considerably smaller fluctuations than those which are practically without any short interest.

To the mind of the writer this is a complete demonstration of the usefulness of the short interest in helping to limit and restrain unduly wide fluctuations in the stock market.

# The Future of Canadian Pacific

**By ERSKINE DALY**

THE Canadian Pacific Railway Company is making astounding gains in gross earnings from railway operations. In the last week of January the increase was almost a half million dollars. In the first six months of the fiscal year ending June 30, 1913, the gain was $11,000,000. The total railway operating revenue for the half year was $73,500,000.

These figures are stupendous. They lead Sir Thomas Shaughnessy, president of Canadian Pacific, to estimate gross earnings for the year to end June 30 next of $140,000,000. If the experience of other years is attained the operating revenue will be nearer $145,000,000 than $140,000,000.

At the close of the fiscal year 1913, we shall doubtless be able to say that Canadian Pacific has made the largest gain in gross earnings ever recorded in any one year by any railroad company.

A conservative estimate of net earnings for the year ending June 30 next is $50,000,000. They may run to $50,750,000. This estimate is based on the net earnings for the first half of the fiscal year, which amounted to $27,100,000, and official reports as to prospective spring and early summer traffic conditions. It allows a proportion of operat-

ing expenses to gross earnings of 65 per cent., which is a little more than the proportion of the preceding year and the year previous to that.

With net earnings of $50,000,000 and fixed charges of not more than $11,500,000, surplus available for dividends for the current fiscal year will approximate $38,500,000. This surplus will not include special income from interest, dividends, land sales and other extraneous assets. Such a surplus will be a gain of $5,750,000 over the fiscal year 1912, theretofore the largest in the company's history.

The table herewith, covering almost the history of the road in earnings, giving gross earnings, operating expenses and surplus for dividends exclusive of special income, shows in a striking manner the wonderful gains achieved.

Estimating $38,500,000 balance for dividends from transportation earnings there must be added thereto the special income for the year. This will approximate $5,000,000. In the fiscal year ended June 30, 1912, special income amounted to $5,158,586, and in the preceding year to $5,046,856. This comprised proceeds and deferred payments for lands sold of $1,817,774 in 1912 and $1,688,171 in 1911, as well as $3,340,812 interest and dividends on securities in 1912 and $3,358,685 in 1911.

A grand total of $43,500,000 available for dividends at the close of the fiscal year 1913 will probably fall behind the actual record. It would be sufficient to pay the 4 per cent. annual dividend on the preferred stock and to have left a balance of $40,000,000.

Think of it—from a single year's operations a balance of $40,000,000 for $260,000,000 common stock. It would exceed 15 per cent. on the maximum capital stock of the Canadian Pacific Railway Co.

It is no wonder that Canadian Pacific is able to sell $60,000,000 common stock at 175. Were there no Balkan War and were the money situation of Europe more clarified, the company would have been able to place a higher price on the new stock. Even at 175 the right to subscribe

**GROWTH OF CANADIAN PACIFIC.**

| Calendar year: | Gross earnings. | Operating expenses. | Surplus. |
|---|---|---|---|
| 1886 | $10,081,803 | $6,378,317 | $635,445 |
| 1887 | 11,606,412 | 8,102,294 | 253,855 |
| 1888 | 13,195,535 | 9,324,760 | 326,423 |
| 1889 | 15,030,660 | 9,024,601 | 2,226,926 |
| 1890 | 16,552,529 | 10,252,829 | 2,053,083 |
| 1891 | 20,241,096 | 12,231,436 | 3,345,167 |
| 1892 | 21,409,352 | 12,989,004 | 3,521,932 |
| 1893 | 20,962,317 | 13,220.901 | 2,612,682 |
| 1894 | 18,752,168 | 12,328,859 | 2,526,731 |
| 1895 | 18,941,037 | 11,460,086 | 1,374,485 |
| 1896 | 20,681,597 | 12,574,015 | 1,706,773 |
| 1897 | 24,049,535 | 13,745,759 | 3,861,115 |
| 1898 | 26,138,977 | 15,663,606 | 4,124,417 |
| 1899 | 29,230,038 | 16,999,873 | 6,408,688 |
| 1900* | 14,167,798 | 8,889,851 | 2,855,061 |
| 1901 | 30,855,203 | 18,745,828 | 5,586,965 |
| 1902 | 37,503,054 | 23,417,142 | 7,559,914 |
| 1903 | 43,957,373 | 28,120,527 | 9,921,461 |
| 1904 | 46,469,132 | 32,256,027 | 8,088,277 |
| 1905 | 50,481,882 | 35,006,794 | 8,875,686 |
| 1906 | 61,669,758 | 38,696,445 | 16,012,215 |
| 1907 | 72,217,527 | 46,914,219 | 18,376,033 |
| 1908 | 71,384,173 | 49,951,807 | 14,796,922 |
| 1909 | 76,313,321 | 53,357,748 | 14,955,028 |
| 1910 | 94,989,400 | 61,149,534 | 26,278,728 |
| 1911 | 104,167,808 | 67,467,978 | 26,727,109 |
| 1912 | 123,319,541 | 80,021,298 | 32,752,754 |
| 1913 (estimated) | 142,500,000 | 92,500,000 | 38,500,000 |

*Half year ended June 30. For the remainder of the table, fiscal year ends June 30.

to new stock sold in the New York market from 18 to 21. What American railroad could ask its stockholders to subscribe to stock at a premium of $75 a share?

Canadian Pacific is more than a 10% dividend payer. The directors in January, 1911, placed the stock on a 10 per cent. per annum basis, of which 7 per cent. was declared from railroad and other transportation earnings and 3 per cent. from interest and dividends on securities and from land sales. This applied to one-half of the year ended June 30, 1912. This year Canadian Pacific not only continued the rate of $10 a share, but gave the opportunity to subscribe for $60,000.000 new stock at $175 a share. This subscription right brought as much as $21.75 a share, and as low as $18 a share.

Such opportunties will undoubtedly be offered again and again to Canadian Pacific stockholders, for Canadian Pacific in the course of another year or two will have to have capital in addition to the $105,000,000 received from this year's sale of stock. The stock in excess of $260,000,000 will be sold so as to make extensions and carry out development already planned. The new mileage will bring in additional gross earnings and in consequence the stockholder can rest assured of receiving 10 per cent. on his present stock, valuable rights to subscribe to new stock and every prospect of receiving 10 per cent. on the new stock from the first dividend thereon.

If the future may be judged from the past, it would appear that shareholders may expect an average annual return of more than 14 per cent. In five years the return to stockholders has totaled 71¼ per cent. Statisticians indeed have figured that the average annual return on a share of stock held for 25 years has been 12 per cent.

In view of such large returns on an original investment (and those who have bought in the meantime and held for a reasonable time have also made large profits) it is not surprising to find that Canadian Pacific stock over a period of years has almost steadily advanced to new high records. From a low price on the New York Stock Exchange of 72 in 1898, there was a constant rise to a high of 145¼ in 1902. More or less of a depression in railroad development occurred in 1903 and 1904, and Canadian Pacific receded to a low of 109½. The next upward move brought a high of 201½. Then came the 1907 panic and the depression of 1908 which brought Canadian Pacific to a low of 138. Since 1908 there has been a continual upward swing. The prices were: 1909, high, 189⅜, low, 165; 1910, high, 202⅜, low, 176¾; 1911, high, 247, low 195⅝; 1912, high, 283, low 226½. So far this year the highest has been 266¾, and it sold in the latter part of February at the lowest touched up to the time of going to press, 227⅞. The latter price, however, comprises Canadian Pacific stock after the right to subscribe has been deducted and corresponds to a price of 247 before the deduction of such rights.

In considering Canadian Pacific's market position, it must be remembered that the market in New York is rather narrow, i. e., that the floating supply of Canadian Pacific on this side of the Atlantic is rather limited and that the bulk of that railway's stock is owned in Great Britain and Germany and dealt in on the London Stock Exchange and the Berlin Boerse. In consequence, the value of Canadian Pacific stock is directly affected by the money situation in England and on the Continent and has been disturbed by the Balkan situation to a much greater extent than have the stocks of United States railroads. It has been interesting to note the direct effect of news about the Balkan war upon Canadian Pacific stock. Upon reports that the allies had brought the war to an end the stock would shoot upward several points. Upon news that fighting had been resumed a marked decline would set in.

Such declines, however, should not alarm the American investor. They are only temporary. The value behind Canadian Pacific stock is in no wise affected. The Balkan War will have to be brought to an end some time sooner or later and then the money marts of Europe will become normal, British and European investors will regain their confidence and Canadian Pacific will again be in investment favor.

When such time comes further advances in Canadian Pacific stock seem

inevitable and when matters look darkest regarding the Balkan War, Canadian Pacific may sell at its lowest point in a long time to come. Another point of view was expressed in a letter to me, part of which follows:

"Little towns all over Western Canada are filled with land boomers, selling lots on their outskirts at prices that discount 50 years future value. Now Canadian Pacific announces it will sell land only to actual settlers—who must live on and cultivate it—and allow them twenty years' time to pay. The railroad will have to take back land in the hands of speculators and boomers which cannot be sold.

"The five-year land boom in Canada is on the verge of collapse. Canadian Pacific stock will surely sell much lower than 150 in time."

The writer of the letter above quoted called himself "A Veteran Operator." Probably he was at the time actively operating for a downward movement in Canadian Pacific.

The facts are that Canadian Pacific, as a more than a 10 per cent. dividend payer, and earning millions in excess of dividend requirements, is well worth its current price, on the basis of earning power and prospects.

Canadian Pacific's announcement that it will sell land only to actual settlers is the best indication that a collapse in land values is far from imminent. Besides, immigration to Canada along the lines of the Canadian Pacific is constantly increasing and last year reached an unprecedented total.

Sir Thomas Shaughnessy's own statements are perhaps the best answer to "Veteran Operator's" letter. On his last visit to New York, Sir Thomas said: "Indications point to a large volume of traffic during the spring and early summer. The outlook for industries generally in Canada is excellent. Our gross earnings will at least reach $140,000,000 this year.

"This prosperity of Canadian Pacific is upon the soundest basis on which it is possible to establish a transportation system; namely, the soil. Immigration this year from all indications will be larger than that of last year. Reports of manufacturers also give indication of a continuation of the substantial growth manifested in recent years."

# The Small Investor's Chance

## His Opportunities As Compared With Those of Larger Traders

THE public in general has very little idea of the efforts made by the Stock Exchange in recent years to afford good facilities to the small investor for the purchase and sale of odd lots of stock.

This is to a large extent due to the extreme reticence of the Stock Exchange authorities and brokers in regard to the details of their business. Apparently very little, if any, attempt has been made to acquaint the public with the opportunities provided for the investor of limited capital.

In the conference between the representatives of the Stock Exchange and Governor Sulzer recently, this subject came up, and the conversation was reported as follows by the newspapers:

Mr. Mellick called attention to the opportunity given by the Stock Exchange for individual small investors. He pointed out that a purchaser can buy one share on exactly the same basis as 100 shares.

"If anything were done to the Exchange," he said, "that would affect the market there radically, it would injure the great number of small stockholders, estimated for all stocks at 2,000,000."

That was news to Gov. Sulzer, who had in mind the rule that 100 shares should be the amount of trading.

Gov. Sulzer had an idea that when a broker bought ten shares for a customer, he didn't buy them on the Exchange, but President Mabon told him he was mistaken.

"But he can buy them on the Exchange only if small lots are offered," said the governor.

"No," Mr. Mabon replied. "If there is a market at all, he can buy ten shares at an eighth from the next sale or at the offered price. Of course, if it's an inactive stock and he can't get 100 shares, he can't get 10."

"He can't buy them if nobody wishes to sell," said Mr. Sulzer.

"He can't do that on 100 shares," Mr. Mabon returned. "If nobody wishes to sell 100 or more. But with the general run of stocks, he always can buy or sell."

"I think that is a matter you ought to make as clear as possible to the country," said Gov. Sulzer, who seemed to be impressed with the opportunities offered to the small investor.

Everybody who really understands the present system of handling odd lot orders on the Exchange will agree with Governor Sulzer that the matter ought to be made as clear as possible to the public. But unfortunately the number of persons who do understand this system is extremely small. For example, one of the leading newspapers in New York City, and one which gives special attention to Stock Exchange matters, commented on this matter as follows in its financial columns:

One of the Stock Exchange men who appeared before Governor Sulzer yesterday is quoted as having made the statement that a small investor could go to a Stock Exchange house and buy one share of stock just as easily and at as favorable a price as the man who wanted a thousand shares. Governor Sulzer replied that this was a matter of great importance, which should be made clear to the people of the country. Such a thing, however, is not so; a small investor cannot obtain as favorable a price as the 1,000-share trader. To execute smaller orders than those of the Stock Exchange unit of 100 shares, it is an invariable rule of the odd-lot brokers that one hundred shares shall sell 1/8 lower on buying orders or 1/8 higher on selling orders than the prices named in the orders of the odd-lot traders. The brokers thus take not only the regular commission of 1/8, but they deduct also another 1/8 from the price of the stock. Thus, if St. Paul is 114, a man buying fifty shares must pay 114 1/8, and 1/8 commission besides. His neighbor, who sells fifty shares of St. Paul, receives 113 7/8, and pays 1/8 commission. The broker makes half a point on the two trades, as against 1/4 made on similar trades where the unit is 100 shares or more.

This paragraph shows a condition which closely approaches absolute ignorance in regard to the odd lot business on the Exchange. There is no such "invariable rule of the odd lot brokers" as stated. The broker does not "make half a point on the two trades." The St.

Paul illustration is absolutely misleading to the public. The reporter apparently did not know the difference between an odd lot broker and an odd lot dealer. Some of these errors were corrected by the newspaper on the following day; but even the correction did not give the reader a clear idea of the exact position of the investor in odd lots.

* * *

THE odd lot *broker* receives orders from his customers and executes them on the floor of the Exchange. The odd lot *dealer* has no dealings with the public direct. His business consists solely in buying and selling stocks for his own account on the floor of the Exchange. He stands ready to buy odd lots at the bid price for 100 share lots, or to sell odd lots at the offered price for 100 share lots.

The odd lot customer gets, as a rule, the same price for his one share, 10 shares, or 50 shares as he would get for 100 shares. When there is any difference, it is trifling, and in some cases the difference is likely to be in favor of the odd lot order.

This is contrary to the generally accepted opinion, even among customers who frequently trade in odd lots. We will therefore go into the matter in detail and will endeavor to explain why this mistaken impression exists.

Before the odd lot dealers took up this line of business, the price obtainable for an odd lot was a matter of uncertainty and the odd lot customer was generally at a disadvantage of about 1/8 as compared with the 100-share trader. This condition was changed when the odd lot dealers entered the field, but many investors have not yet found it out.

* * *

O*RDERS at the Market.* We will take up first the execution of an order to buy an odd lot of stock without any price limit being set by the customer.

"The market" for any stock never consists of a single price. St. Paul never "is 114," as the reporter says in the above extract. The market consists of a bid price and an offered price. St. Paul is 114 bid, 114 1/8 asked; or 114 asked, 113 7/8 bid, or something like it.

In the active stocks the bid and offered prices are usually 1/8 apart; in less active stocks, 1/4 apart; and in the inactive stocks a greater distance, often running from one point to twenty or more points.

Suppose St. Paul is 114 bid, 114 1/8 asked, last recorded price 114. You give an order to buy 50 shares at the market. Your broker takes the order, goes to an odd lot dealer on the floor of the Exchange and buys from him 50 shares at the offered price, 114 1/8. If the order had been for 100 shares you would have paid the same, 114 1/8.

But note the difference. The 100-share lot appears on the tape as sold at 114 1/8 and thus makes its own price. The buyer is certain to get the exact market because he made the market himself. But the odd lot is not quoted on the tape unless specially requested. The buyer paid the same price, but the price on the tape remains at 114. Hence the investor considers that he has paid 1/8 over the market.

This is the principal reason for the common statement that the odd lot investor is at a disadvantage of 1/8. The disadvantage is apparent only. In such a case he gets exactly the same price as though his order had been for 100 shares.

If the order is in one of the less active stocks, where the bid and offered prices are 1/4 apart, the above considerations apply all the more strongly. Suppose Louisville & Nashville, for example, is 150 bid, 150 1/4 asked, last price 150. The 100-share purchase would be at 150 1/4 and would appear on the tape. The odd lot purchase would be at the same price but would appear to be 1/4 over the market.

* * *

I*NACTIVE stocks.* Where the bid and offered prices are still further apart, as one or two points, the odd lot buyer has his choice of paying the offered price, just as the 100-share purchaser would do, or waiting for the next 100-share sale and paying 1/8 higher than the actual figure quoted.

For example, suppose Minneapolis & St. Louis is 21 bid, 23 asked. On a market order the buyer would pay 23 and would very likely be dissatisfied. Therefore the odd lot dealers have a custom to the effect that they will sell at 1/8 above the next sale. If the next

sale was 22, the odd lot purchase would be at 22⅛. In such a case the odd lot buyer has a decided advantage over the 100-share trader on an order at the market. He will, on the average, buy at a lower price.

* * *

BUYING *at the opening.* When the market opens, at 10 a. m., prices have not been fully established and the bid and asked prices may be uncertain. Therefore the odd lot dealer makes it a rule to sell at ⅛ over the opening price or buy at ⅛ under that price. This is equivalent to a spread of ¼ between bid and offered prices, and taking the list as a whole, under all the varying conditions of the market, odd lot orders are executed on the opening at as favorable figures as 100-share orders.

When St. Paul opens at 114 and the odd lot buyer finds that he has paid 114⅛, he assumes at once that he could have bought 100 shares at 114. Perhaps so and perhaps not. A stock often opens "on a run"—as 100 St. Paul at 114, 100 at 114⅛, and 200 at 114⅜. The opening price is 114, but it is clear that only one lot of 100 shares could have been bought at that price. If there were four orders, each to buy 100 St. Paul at the opening, two of them would have to be executed at 114⅜, or ¼ higher than the price paid for the odd lot. Any trader in 100-share lots knows that this is a common occurrence.

* * *

L*IMITED* orders. Here the odd lot customer is at a slight disadvantage. If St. Paul declines to 114 and then advances without selling any lower than 114, the customer who has an order to buy 100 shares at that price stands a slightly better chance of getting his stock than the customer who is trying to buy 20 shares.

The 20 shares will not be bought unless St. Paul is *offered* at 114. The purchaser can then buy the 20 shares on the offer at 114, although no sales are made below that price. This does not often occur, though it does sometimes. But if, let us say, 500 shares are wanted at 114, and an order reaches the floor to sell 200 shares at the market, the would-be buyer of 100 shares at that price has a two-fifths chance of getting his stock, other things being equal.

* * *

S*TOP orders.* The odd lot trader in the active stocks often has an advantage over the 100-share trader in the execution of stop orders. Suppose you have an order to sell 100 St. Paul at 114 stop, and when the price declines to that figure there are 2,000 shares pressing for sale. The market may decline another ¼ or even ½ point, under some conditions, before your stock can be sold. But a stop order for 50 shares will usually be executed at 114 as soon as the price strikes that figure. Since many odd lot traders desire to use stop orders, this is an important consideration with them.

In this matter, as in all others, it is to be borne in mind that the odd lot dealers cannot bind themselves by fixed rules for all conditions of the market. The customs above explained prevail in ordinary markets. In a panic, the dealer might be forced to act differently. But the odd lot dealers all appreciate the great importance of giving the public liberal treatment, and affording an opportunity to buy or sell fractional lots on the New York Stock Exchange on the most equitable and fair basis, such as to bring credit to this branch of the business.

* * *

TAKING everything together, all kinds of stocks, all kinds of markets, all kinds of conditions, if the odd lot investor is at any disadvantage at all, it is so slight as to be negligible and results chiefly from the fact that a small order does not affect the market as much as a larger order. Our own experience and observation is that, on the average, he gets just as good prices as the trader in 100-share lots.

Some investors have the idea that because the ordinary unit of trading on the Consolidated Exchange is 10 shares, odd lot orders can be better executed in that market. We have no desire to become embroiled in any differences of opinion which exist between the two exchanges, but as a mere statement of fact we may say that the execution of odd lots on the Consolidated is no better than on the New York Stock Exchange.

# Investing Ten Thousand Dollars

I HAVE $10,000 in cash on deposit with strong trust companies in New York City, and I am waiting for the time when prices reach very low levels, when I expect to invest this money. What I wish to ask of you is how you would divide this money; that is, what proportion in bonds, what in high-grade railroad or industrial stocks, or would some of the medium-priced or very low-priced stocks pay me better? I do not want any speculative issues. I desire to place my money in the safest and most conservative securities, and I am willing to receive a lower income if it lessens my risk. I would also like your general opinion as to the merits of different stocks.—Mrs. A. B. W.

There are various grades of securities which occur to us as suitable for your purpose—both bonds and stocks. If you buy high-grade bonds at such a time, there is a possibility of their increasing perhaps 5 per cent. in the market price, depending more or less upon the price you pay and the future rate of money. The money rate, as you doubtless know, materially affects the price of such bonds. The highest grade bond would be a first mortgage on the main line of one of the great systems, such as Pennsylvania, New York Central, New Haven, etc. Such bonds yield a very low income.

Then there are convertible bonds which, when issued by a strong company, such as Union Pacific, Atchison, Southern Pacific, Norfolk & Western, can often be bought during bear markets at low prices because the stocks into which they are convertible decline materially and affect the price. Bonds of such issues yield from 3 to over 5 per cent., and are particularly attractive where there is a possibility of a distribution of treasury assets, as in the case of Union Pacific. If the stocks should thereafter advance, the convertible bonds would increase accordingly.

Bear in mind that these bonds are not secured by mortgage, but are an obligation on the part of the issuing company. Many of them are legal investments for savings banks, making them just as safe as your money would be in a savings bank, except that investments of the bank are widely distributed. Beyond these two groups of bond issues, we do not think it would be well for you to go.

Among stock issues, we first consider the highest grade, and place in one group those which have a record for making extra disbursements of various sorts. These companies are exceedingly rich and their stockholders benefit by this exceptional state of their finances. One of this class which is available and attractive to the ordinary investor is the Canadian Pacific Railway, which has equities in lands, steamship lines, hotels, etc., in addition to its immense railroad system, sufficient to make it a Croesus among railroads. Delaware, Lackawanna & Western is another in this class, but as the trend of legislation is for lower rates in the transportation of coal, we believe it would be well to avoid this issue now. Among the industrials, we have the Sears-Roebuck Company, which does business on a strictly cash basis, and is thoroughly sound and amply financed. There is also the Pullman Palace Car Company and American Telephone & Telegraph. None of these companies are likely to be seriously affected by tariff or legislative changes, with perhaps the exception of the Pullman Company, which would be favorably affected by lower materials if the tariff on steel were much reduced.

Another group would be railroad stocks such as Louisville & Nashville, Atlantic Coast Line, Great Northern, Norfolk & Western and Union Pacific. We have purposely omitted from this list Lehigh Valley and Reading, on account of the coal rate tendency above noted; and Pennsylvania, Atchison, Baltimore & Ohio, Southern Pacific, Northern Pacific, New York Central and St. Paul, because the margin of safety over dividends in recent years seems to be decreasing instead of increasing. A glance at our "Bargain Indicator" will enable you to confirm these figures.

In the industrial list it is not so easy to choose owing to the various ways in which these companies will be affected by revision of the tariff. National Biscuit does as good business in hard times as in good times, but is already subject to new and important competition. Western Union would be an excellent stock for your purpose, as its earnings are increasing owing to a more aggressive policy and within the next few years its dividend rate should be increased. But generally speaking, we would proceed cautiously in buying industrial stocks for the above reason.

Another excellent class of issues for your purpose would be stocks of porphyry copper companies, where the ore can be actually measured and valued, and the life of the mine ascertained with practical certainty. Mines which can produce copper at 6c. to 8c. per pound have little to fear from fluctuations in the price of the metal. The ore cannot deteriorate, no one can steal it, tariff changes will not affect it. We would therefore recommend your placing at least a small part of your money in stocks of this class, preferably Utah and Chino, which are two of the lowest cost producers, with sufficient tonnage to guarantee them a long life.

As to the division of your funds, we should say a good arrangement would be to put one-quarter into the best mortgage bonds; another quarter into convertibles or good debentures (from which you should get a little higher rate of interest than from mortgage bonds); three-eighths, perhaps, into the best railroad stocks; and one-eighth into porphyry coppers

# Monthly Net Earnings

**THIS table gives the returns of the principal railroads down to latest dates available, and should be studied in connection with the "Bargain Indicator," which shows annual results, and the "Investment Digest," where other details of earnings will often be found.**

| | | Current month. | Change from last yr. | Fiscal yr. to date. | Change from last fisc. yr. | Stock outstanding (in millions). Pref. | Com. |
|---|---|---|---|---|---|---|---|
| Atch., Top. & S. Fe | Dec. | $3,443,220 | +$447,251 | $21,347,683* | +$2,773,076 | 114 | 172 |
| Atlantic Coast Line‡ | Dec. | 1,304,825 | +72,467 | 4,291,694* | —367,216 | ... | 58 |
| Baltimore & Ohio | Dec. | 2,324,479 | +239,776 | 16,024,229* | +1,160,635 | 59 | 152 |
| Boston & Maine | Dec. | 492,622 | —188,832 | 6,532,119* | +578,790 | 3 | 39 |
| Buff., Rochester & Pittsb. | Dec. | 233,927 | —14,406 | 1,737,034* | +141,376 | 6 | 10 |
| Canadian Pacific‡ | Dec. | 4,395,720 | +289,990 | 27,131,152* | +2,660,905 | 66 | 200 |
| Central of Georgia | Dec. | 391,138 | —26,787 | 2,188,532* | —159,056 | 15 | 5 |
| Central R. R. of N. J. | Dec. | 1,558,565 | —37,735 | 7,922,828* | +728,966 | None | 27 |
| Chesapeake & Ohio | Dec. | 884,153 | —133,512 | 5,901,323* | —102,959 | ... | 62 |
| Chicago & Alton‡ | Dec. | 30,131 | —171,778 | 1,704,224* | —197,982 | 19 | 19 |
| Chic., Burl. & Quincy | Dec. | 3,037,663 | +469,308 | 20,041,344* | +3,297,056 | None | 110 |
| Chic. Gt. Western | Dec. | 346,633 | +63,579 | 2,175,915* | +259,278 | 41 | 45 |
| Chic., Mil. & St. Paul | Dec. | 2,014,818 | +320,851 | 13,710,267* | +4,362,848 | 116 | 116 |
| Chic. & Northwestern‡ | Dec. | 2,244,060 | +547,084 | 14,592,190* | +2,339,833 | 22 | 130 |
| Cleve., Cin., Chic. & St. L. | Dec. | 657,074 | —39,033 | 8,354,494† | +608,286 | 10 | 47 |
| Colorado & Southern | Dec. | 498,643 | +48,278 | 2,811,384* | —31,806 | 1st, 8; 2d, 8 | 31 |
| Delaware & Hudson | Dec. | 785,994 | —75,356 | 8,418,714† | —226,418 | None | 42 |
| Del., Lack. & Western | Dec. | 1,383,342 | +126,494 | 8,510,224* | +919,622 | None | 30 |
| Denver & Rio Grande‡ | Dec. | 598,651 | +133,202 | 4,106,900* | +812,628 | 49 | 38 |
| Erie‡ | Dec. | 1,062,240 | —21,382 | 8,938,551* | +414,656 | 1st, 47; 2d, 16 | 112 |
| Great Northern | Dec. | 3,100,127 | +844,452 | 21,592,351* | +3,042,747 | 209 | None |
| Hocking Valley | Dec. | 204,561 | +9,213 | 1,621,589* | +116,914 | None | 11 |
| Illinois Central‡ | Dec. | 1,325,727 | +708,224 | 6,000,252* | +1,487,286 | None | 109 |
| Kansas City Southern | Dec. | 342,214 | +86,332 | 2,170,256* | +490,890 | 21 | 30 |
| Lake Erie & Western | Dec. | 112,212 | +4,179 | 1,380,264† | +255,063 | 11 | 11 |
| Lake Shore & Mich. So. | Dec. | 1,737,311 | +141,524 | 18,748,972† | +2,831,850 | None | 49 |
| Lehigh Valley | Dec. | 1,000,510 | +54,177 | 7,982,000* | +1,163,481 | ... | 60 |
| Long Island‡ | Dec. | 76,469 | +29,970 | 2,369,537† | +362,682 | None | 12 |
| Louisville & Nashville | Dec. | 1,387,144 | —88,480 | 8,569,977* | —709,624 | None | 60 |
| Michigan Central | Dec. | 880,807 | +178,453 | 9,902,997† | +1,084,262 | None | 18 |
| Minn. & St. Louis‡ | Dec. | 219,942 | +98,743 | 1,489,728* | +564,149 | 5 | 15 |
| Minn., St. P. & S. S. Marie‡ | Dec. | 809,342 | +285,127 | 5,210,885* | +1,327,905 | 12 | 25 |
| Mo., Kansas & Texas | Dec. | 1,035,000 | +325,047 | 6,308,467* | +2,006,247 | 13 | 63 |
| Missouri Pacific | Dec. | 1,539,437 | +310,775 | 8,930,106* | +2,751,431 | None | 82 |
| National Rys. of Mexico | Dec. | 2,750,952 | +258,586 | 13,447,587* | —1,349,724 | 1st, 57; 2d, 240 | 149 |
| N. Y. Central | Dec. | 2,548,861 | +369,828 | 28,588,862† | +334,202 | None | 222 |
| N. Y., Chic. & St. Louis | Dec. | 377,956 | +13,254 | 3,527,129† | +289,319 | 1st, 5; 2d, 11 | 14 |
| N. Y., N. H. & H. | Dec. | 1,428,534 | —534,289 | 13,239,709* | +1,020,029 | None | 157 |
| N. Y., Ont. & Western‡ | Dec. | 166,703 | +37,426 | 1,627,287* | +338,525 | None | 58 |
| Norfolk & Western | Dec. | 1,368,878 | —245,263 | 8,163,494* | +733,671 | 22 | 97 |
| Northern Pacific | Dec. | 2,862,599 | +612,295 | 17,261,724* | +2,153,838 | None | 248 |
| Pennsylvania R. R‡ | Dec. | 2,551,253 | —363,531 | 40,807,773† | +3,374,823 | None | 453 |
| Pere Marquette | Dec. | 392,133 | +38,835 | 2,226,474* | —180,960 | 12 | 16 |
| Pitts., Cin., Chic. & St. L.‡ | Dec. | 768,744 | +43,461 | 10,316,898† | +838,251 | 27 | 37 |
| Reading Companies | Dec. | 2,679,114 | +647,452 | 14,735,306* | +5,045,118 | 1st, 28; 2d, 42 | 70 |
| Rock Island | Dec. | 1,570,521 | —24,978 | 11,139,936* | +1,414,557 | 49 | 90 |
| Seaboard Air Line‡ | Dec. | 612,175 | +71,986 | 2,988,384* | +113,178 | 23 | 37 |
| St. Louis & San Fran. | Dec. | 1,517,816 | +288,616 | 8,398,025* | +820,104 | 1st, 4; 2d, 15 | 28 |
| St. Louis Southwestern‡ | Dec. | 430,916 | +10,309 | 2,262,121* | +158,289 | 19 | 16 |
| Southern Pacific‡ | Dec. | 3,451,222 | +444,506 | 26,689,664* | +3,454,848 | None | 272 |
| Southern Railway | Dec. | 2,110,643 | +103,619 | 11,515,115* | +547,835 | 60 | 120 |
| Texas & Pacific | Dec. | 563,988 | —89,125 | 2,363,278* | —737,075 | None | 38 |
| Tol., St. L. & Western | Dec. | 142,685 | +56,705 | 591,911* | +88,747 | 10 | 10 |
| Union Pacific‡ | Dec. | 2,632,156 | +426,931 | 21,864,572* | +2,502,154 | 99 | 216 |
| Wabash | Dec. | 507,030 | +24,118 | 4,452,776* | +468,283 | 39 | 53 |
| Western Maryland‡ | Nov. | 151,386 | —30,390 | 727,945* | —324,820 | 10 | 49 |
| Wheeling & Lake Erie | Dec. | 137,054 | —17,915 | 1,558,083* | +114,940 | 1st, 4; 2d, 11 | 20 |
| Wisconsin Central | Nov. | 357,559 | +129,569 | 1,707,759* | +363,197 | 11 | 16 |

* Fiscal year ends June 30. † Fiscal year ends Dec. 31. ‡ Net earnings are after deducting taxes.

# THE BARGAIN INDICATOR

## Comparative Earnings of Important Stocks

**NOTE—The minus sign (—) before figures below indicates a DEFICIT for the year equal to the per cent. on stock given. Additions and betterments are included in earnings given, wherever distinguishable from ordinary expenses of maintenance, since earnings invested in improvement of the property increase the equity of the stockholders and therefore render the stock more valuable. The value of a stock cannot be judged by its position in the table ONLY. Earnings for successive years as given should be carefully examined, with a view to stability and growth as well as amount. Latest earnings will be found in table of "Monthly Net Earnings" or "Investment Digest."**

| Railroads | Present div. rate. | Earnings on par for fiscal year ending on any date during 1906. | 1907. | 1908. | 1909. | 1910. | 1911. | 1912. | Present price. | Earnings last fisc. yr. on pres. price. | Notes. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Southern Railway com.... | 0 | 1.9 | —0.6 | —2.2 | 0.5 | 2.3 | 3.1 | 3.1 | 25 | 12.4 | Pfd. now on 5% basis. |
| Louisville & Nashville.... | 7 | 10.6 | 10.7 | 7.5 | 14.3 | 17.3 | 14.2 | 15.9 | 131 | 12.1 | Controlled by Atl. Coast Line. |
| Hocking Valley com...... | 7 | 9.9 | 11.2 | 6.0 | 8.3 | 18.2 | 16.7 | 16.6 | 143 | 11.6 | |
| St. Louis S. W. com...... | 0 | —2.7 | 3.7 | —4.2 | —2.5 | —1.1 | 1.4 | 3.8 | 34 | 11.2 | Pfd. now paying full div. of 5%. |
| Twin City Rapid Tran. com | 6 | 8.1 | 8.2 | 8.3 | 9.9 | 10.9 | 11.0 | 11.3 | 105 | 10.8 | |
| Atlantic Coast Line....... | 7 | 10.8 | 6.3 | 5.6 | 9.4 | 12.0 | 12.8 | 12.1 | 126 | 9.6 | Holds control of Louis. & Nash. by stock ownership. |
| Norfolk & Western com... | 6 | 9.7 | 9.0 | 7.1 | 8.7 | 11.6 | 9.0 | 10.1 | 106 | 9.5 | Controlled by Penna. |
| Chesapeake & Ohio....... | 5 | 7.3 | 5.4 | 4.4 | 6.4 | 10.0 | 5.1 | 6.8 | 73 | 9.3 | Earns. 1911-12 reduced by Chicago exten. |
| Brooklyn Rapid Transit... | 5 | 4.8 | 4.4 | 4.1 | 4.2 | 5.6 | 6.8 | 8.3 | 89 | 9.3 | Subways will doubtless enlarge earnings eventually. |
| Colorado & Southern com. | 1 | 3.5 | 4.5 | 4.8 | 4.9 | 7.3 | 5.2 | 2.6 | 29 | 9.0 | Controlled by C., B. & Q. (Hill management). |
| Union Pacific com........ | 10 | 14.2 | 16.5 | 16.2 | 19.1 | 19.2 | 16.6 | 13.8 | 155 | 8.9 | |
| Canadian Pacific ......... | 10 | 14.1 | 13.7 | 10.6 | 8.6 | 16.0 | 17.3 | 19.6 | 229 | 8.6 | Div. 7% R. R., 3% land sales. Feb., 1913, rts. eq. 18%. |
| Lehigh Valley com....... | 10 | 18.2 | 20.0 | 19.2 | 15.4 | 23.0 | 16.5 | 13.2 | 155 | 8.5 | |
| Minn., St. P. & S. S. M. com | 7 | 11.7 | 9.6 | 8.4 | 8.8 | 15.7 | 5.3 | 11.1 | 136 | 8.2 | Pfd. and com. share above 7%. Contr. by Can. Pac. |
| Gt. Northern pfd......... | 7 | 13.0 | 11.8 | 7.1 | 8.3 | 8.5 | 8.3 | 10.3 | 125 | 8.2 | Has large equity in C., B. & Q. and Canadian extensions. |
| Seaboard Air Line Ry. pfd | 0 | .... | .... | .... | .... | .... | 7.6 | 3.7 | 45 | 8.2 | |
| Atchison com ............ | 6 | 11.8 | 15.0 | 7.7 | 12.1 | 8.9 | 9.3 | 8.2 | 101 | 8.1 | |
| Reading com............. | 8 | 13.9 | 13.0 | 12.7 | 13.2 | 16.1 | 13.8 | 12.5 | 158 | 7.9 | Including additions and betterments. Contr. Jersey Cen. |
| Southern Pacific com..... | 6 | 8.1 | 12.5 | 7.4 | 10.2 | 13.0 | 9.6 | 7.9 | 101 | 7.8 | |
| Del., Lack. & Western.... | 20 | 22.2 | 38.5 | 40.8 | 52.8 | 35.4 | 31.8 | .... | 415 | 7.7 | |
| Delaware & Hudson...... | 9 | 12.6 | 15.2 | 12.4 | 12.2 | 12.5 | 12.3 | .... | 161 | 7.7 | |
| Baltimore & Ohio........ | 6 | 12.6 | 9.9 | 5.1 | 7.1 | 8.9 | 6.9 | 7.6 | 100 | 7.6 | |
| Pennsylvania Lines ...... | 6 | 11.7 | 10.7 | 9.0 | 11.0 | 9.3 | 8.6 | .... | 118 | 7.3 | Has paid divs. since 1856. |
| Buff., Roch. & Pittsb. com. | 6 | 8.6 | 8.7 | 6.2 | 6.3 | 7.3 | 8.0 | 8.4 | 116 | 7.2 | Pfd. and com. share equally above 6%. |
| Pittsb., C., C. & St. L. com | 5 | 8.6 | 8.8 | 7.2 | 9.8 | 6.1 | 7.0 | .... | 100 | 7.0 | Pfd. and com. share above 5%. Controlled by Penna. Co. |
| Northern Pacific com..... | 7 | 14.5 | 15.1 | 12.8 | 10.7 | 9.0 | 8.2 | 7.9 | 115 | 6.9 | Large equities in lands and C., B. & Q. |
| N. Y., N. H. & Hartford.. | 8 | 12.2 | 9.2 | 5.4 | 7.4 | 10.3 | 7.1 | 8.5 | 128 | 6.6 | |
| Denver & Rio Grande pfd. | 0 | 8.1 | 9.7 | 7.7 | 6.6 | 8.3 | 4.7 | 2.0 | 36 | 5.6 | Contr. and finances W. Pac., wh. doesn't earn fxd. chgs. |
| N. Y. Central............ | 5 | 4.6 | 6.2 | 5.1 | 7.7 | 6.4 | 5.7 | .... | 105 | 5.4 | Controls 1/7th Rdg. through Lake Shore. |
| Chicago & Northw'n com.. | 7 | 14.8 | 12.7 | 11.2 | 11.4 | 7.7 | 8.0 | 7.1 | 134 | 5.3 | Pfd. and com. share above 7%. |
| Cleve., C., C. & St. L. com | 0 | 4.1 | 3.1 | 0.4 | 4.8 | 2.1 | 2.8 | .... | 54 | 5.2 | |
| N. Y., Ontario & Western | 0 | 2.0 | 2.8 | 2.6 | 2.3 | 2.3 | 2.0 | 0.8 | 30 | 2.7 | |
| Illinois Central .......... | 7 | .... | .... | 8.4 | 7.4 | 7.1 | 10.3 | 3.2 | 123 | 2.6 | Div. paid since 1863. |
| Erie com ................ | 0 | 2.2 | 3.0 | —3.7 | 0.3 | 2.9 | 2.5 | 0.7 | 29 | 2.4 | |
| Chic., Mil. & St. Paul com | 5 | 12.3 | 10.5 | 9.5 | 7.2 | 8.0 | 7.1 | 1.6 | 108 | 1.5 | |
| Western Maryland com... | 0 | .... | .... | .... | .... | 0.9 | 0.4 | 0.6 | 42 | 1.4 | Connection with N. Y. Cent. completed. Will help earnings. |
| Rock Island Co. pfd...... | 0 | .... | .... | .... | .... | 1.6 | 3.8 | 0.5 | 39 | 1.3 | R. I. Co. owns 94% of stock of R. I. Lines. |
| Chicago Gt. Western pfd.. | 0 | .... | .... | .... | .... | 1.2 | 1.9 | 0.4 | 30 | 1.3 | |
| Kansas City Southern com | 0 | 0.3 | 5.4 | 2.6 | 3.4 | 2.2 | 2.7 | 0.2 | 24 | 0.8 | |
| Wisconsin Central com... | 0 | 1.7 | 3.2 | —0.6 | 0 | 2.5 | —4.3 | 0.3 | 50 | 0.6 | Leased to M., St. P. & S. S. M. (Can. Pac. system). |
| Chicago & Alton pfd...... | 0 | 4.9 | 9.0 | 6.5 | 8.2 | 5.4 | 0.6 | —1.7 | 32 | 0 | Contr. by Tol., St. L. & W.—U. P. owns $10,343,000 pfd. |
| Lake Erie & Western pfd. | 0 | 3.1 | 2.0 | —2.0 | 0.8 | —0.2 | —0.1 | .... | 31 | 0 | Controlled by Lake Shore. |
| Missouri Pacific ......... | 0 | 8.1 | 9.9 | 3.7 | 1.3 | 3.3 | —6.3 | —2.4 | 38 | 0 | |
| Mo., Kansas & Texas com. | 0 | 1.8 | 5.0 | 0.4 | 0.7 | 0.8 | 2.0 | —0.8 | 26 | 0 | |
| Minneapolis & St. L. pfd.. | 0 | 10.4 | 7.8 | 2.7 | —2.4 | 1.9 | 1.5 | —11.1 | 46 | 0 | |
| St. Louis & San Fran. 2d pfd | 0 | 13.2 | 24.7 | 1.6 | 8.2 | 5.8 | 8.3 | —0.1 | 26 | 0 | Entitled to 4% before com. divs. |
| Tol., St. L. & West. pfd.. | 0 | 4.7 | 6.4 | 0.2 | 1.0 | 2.0 | —0.6 | —0.5 | 26 | 0 | Earns. given exclude divs. on Alton, now discontinued. |
| Wabash pfd.............. | 0 | —5.4 | 0.9 | 0.3 | —0.5 | 1.3 | —1.2 | .... | 11 | 0 | Now undergoing reorganization. |

Preferred stocks earning more than the per cent. to which the dividend is limited, but now receiving either no didivend or less than said limit:

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Erie 2d pfd | 0 | 19.4 | 24.9 | —22.1 | 6.4 | 24.3 | 21.7 | 9.2 | 37 | 24.9 | Entitled to 4% before com. divs. |
| Erie 1st pfd | 0 | 10.4 | 12.3 | —3.4 | 6.1 | 12.1 | 11.2 | 7.0 | 45 | 15.6 | Entitled to 4%. |

## Industrials

| | Present div. rate. | Earnings on par for fiscal year ending on any date during 1906. | 1907. | 1908. | 1909. | 1910. | 1911. | 1912. | Present price. | Earnings last fisc. yr. on pres. price. | Notes. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| General Motors com | 0 | .... | .... | .... | .... | .... | 15.7 | 17.3 | 32 | 53.4 | 1911 earnings 10 mos. only. |
| Am. Beet Sugar com | 0 | 2.1 | 1.0 | 4.2 | 7.0 | 7.3 | 10.9 | 13.5 | 35 | 38.6 | Will be affected by tariff reduction. |
| Bethlehem Steel pfd | 0 | 5.1 | 10.8 | 2.4 | 5.3 | 13.4 | 13.6 | .... | 66 | 20.6 | |
| Am. Malt Corp. pfd | 5 | 2.8 | —4.0 | 10.6 | 6.2 | 3.0 | 8.8 | 9.3 | 47 | 19.8 | Divs. in arrears. |
| Union Bag & Paper pfd | 0 | 7.3 | 7.0 | 7.4 | 6.2 | 5.4 | 5.5 | 5.3 | 32 | 16.6 | In arrears 18¾% on 7% cum. div. Recently passed div. |
| Colo. Fuel & Iron com | 0 | 1.7 | 0.9 | 0.4 | 2.1 | 4.0 | 3.2 | 4.8 | 34 | 14.1 | Pfd. in arrears 39%; 35% just paid. |
| Am. Agri. Chem. com | 4 | 4.1 | 6.2 | 6.1 | 7.5 | 10.4 | 9.1 | 7.3 | 52 | 14.0 | |
| Am. Cotton Oil com | 0 | 3.8 | 8.7 | 3.2 | 10.4 | 6.8 | —1.2 | 6.5 | 49 | 13.3 | |
| Inter. Harvester com | 5 | 5.1 | 6.5 | 7.8 | 17.8 | 14.8 | 14.2 | .... | 109 | 13.0 | Govt. suit pending. |
| Am. Steel Foundries | 2 | 5.9 | 14.0 | 0.3 | 0.1 | 6.1 | —1.5 | 4.5 | 36 | 12.5 | 1911 earnings are 17 mos. |
| Am. Hide & Leather pfd | 0 | 1.9 | 2.2 | —0.1 | 11.2 | —5.6 | 0.8 | 3.2 | 26 | 12.3 | |
| Inter. Paper pfd | 2 | 8.9 | 7.2 | 7.3 | 2.7 | 4.5 | 5.3 | .... | 44 | 12.0 | |
| U. S. Realty & Imp | 5 | 4.8 | 6.0 | 7.7 | 9.2 | 9.7 | 9.4 | 8.3 | 71 | 11.7 | Controls Geo. A. Fuller Construction Co. |
| American Woolen com | 0 | 3.5 | —3.3 | —3.9 | 5.2 | 2.2 | 2.1 | .... | 18 | 11.7 | Subject to tariff adjustments. |
| American Can pfd | 7 | 5.1 | 6.4 | 6.6 | 6.7 | 6.8 | 7.1 | 12.9 | 123 | 10.5 | Will pay 25% arrears Apr. 1; leaving 7½% unpaid. 1912 earnings are after chgs. on new bonds. |
| Va.-Carolina Chem. com | 3 | 4.8 | 5.9 | 3.7 | 7.1 | 10.4 | 3.1 | 3.3 | 32 | 10.3 | Owns Southern Cotton Oil Co. |
| U. S. Rubber com | 4 | 4.1 | 4.4 | 0.2 | 4.0 | 7.8 | 2.2 | 6.3 | 61 | 10.3 | |
| General Electric | 8 | 11.7 | 11.6 | 10.2 | 7.4 | 16.7 | 13.7 | .... | 139 | 9.9 | 8 mos. 1912 earn. 9.7%. Jan., 1913, 30% stock div. |
| Sears, Roebuck com | 7 | 6.6 | 8.5 | 4.5 | 18.4 | 20.5 | 17.0 | 19.3 | 197 | 9.8 | In 1911 paid a 33⅓% stock div. |
| U. S. Steel com | 5 | 14.4 | 15.7 | 4.0 | 10.5 | 12.3 | 5.9 | 5.7 | 61 | 9.3 | U. S. Gov't suit pending. Reduced tariff probable. |
| Am. Smelt. & Refin. com | 4 | 10.6 | 12.8 | 7.0 | 7.7 | 7.1 | 6.3 | .... | 69 | 9.1 | |
| Corn Products pfd | 5 | .... | 7.2 | 8.5 | 8.2 | 6.9 | 7.0 | 6.8 | 77 | 8.8 | Div. cumulative and in arrears. |
| Westinghouse Elec. com | 4 | .... | .... | .... | .... | 7.6 | 12.3 | 6.2 | 71 | 8.7 | |
| National Biscuit com | 7 | 7.1 | 7.6 | 8.1 | 7.4 | 7.7 | 9.8 | 10.0 | 117 | 8.5 | Paid 2% extra on com. in 1911. |
| Am. Sugar Refining com | 7 | .... | 12.4 | 7.5 | 3.9 | 3.8 | 9.6 | .... | 115 | 8.4 | 1911 earns. exclude $3,450,627 chgd. "improvements." |
| Distillers' Securities | 0 | 6.4 | 7.8 | 1.5 | 2.2 | 2.3 | 3.1 | 1.5 | 18 | 8.3 | Holds maj. U. S. Ind. Alcohol. |
| Utah Copper (par $10) | 30 | .... | 5.9 | 23.3 | 29.5 | 34.6 | 39.7 | .... | $50 | 7.9 | |
| North American | 5 | 3.2 | 4.7 | 4.8 | 6.0 | 6.2 | 6.2 | .... | 80 | 7.8 | Controls St. Ry. and Elec. Light Cos. |
| General Chemical com | 6 | 7.3 | 5.7 | 4.5 | 14.4 | 15.6 | 15.5 | 14.5 | 190 | 7.6 | 5% stock div. 1912. |
| American Tel. & Tel | 8 | 8.2 | 9.0 | 10.1 | 9.0 | 10.0 | 10.0 | .... | 132 | 7.6 | Large equities in sub. Co. earns.; $50,000,000 stk. incr. 1912. |
| U. S. Cast Iron Pipe pfd | 4 | 14.0 | 14.7 | 5.4 | 1.2 | 4.4 | 3.9 | 4.2 | 56 | 7.5 | Controls 75% of U. S. production. |
| National Lead com | 3 | 5.3 | 6.0 | 5.8 | 6.2 | 4.3 | 3.6 | .... | 49 | 7.3 | |
| Pacific Coast com | 6 | 10.1 | 10.3 | 5.7 | 5.3 | 8.8 | 7.2 | 6.2 | 88 | 7.0 | Com. and 2d pfd. share equally above 4%. |
| People's Gas Light & Coke | 7 | 6.9 | 7.6 | 8.4 | 8.9 | 9.0 | 8.9 | 7.5 | 109 | 6.9 | Recently won suit against 80c. gas. |
| Nat. Enam. & Stamp. com | 0 | 1.7 | 6.7 | —2.1 | 1.1 | 1.0 | 1.1 | .... | 17 | 6.5 | To sinking fund 1911, $114,000, eq. 0.7% on com. |
| Amalgamated Copper | 6 | 5.9 | 9.2 | 4.3 | 2.4 | 3.9 | 3.9 | 4.3 | 67 | 6.4 | |
| Tennessee Copper (par $25) | 6 | 16.5 | 16.0 | 6.5 | 6.8 | 8.9 | 8.1 | .... | $33 | 6.1 | Inc. partly from sulphuric acid. Add'l 4% div. Aug., 1912. |
| Republic Iron & Steel pfd | 7 | 12.2 | 18.6 | 9.8 | 8.1 | 11.7 | 9.7 | 5.1 | 84 | 6.1 | Divs. in arrears 5¼%. |
| Pittsburgh Coal pfd | 5 | 8.1 | 10.0 | 1.7 | 3.0 | 7.2 | 5.1 | .... | 87 | 5.9 | Divs. in arrears. |
| Western Union | 3 | 5.9 | 5.0 | 1.7 | 5.8 | 5.7 | 5.4 | 4.0 | 69 | 5.8 | Controlled by Am. Tel. & Tel. |
| Consolidated Gas (N. Y.) | 6 | .... | 3.9 | 4.9 | 6.7 | 7.4 | 7.6 | 7.5 | 132 | 5.7 | |
| Pullman | 8 | 14.7 | 11.6 | 9.8 | 10.9 | 11.6 | 9.3 | 8.7 | 160 | 5.4 | |
| Am. Car & Foundry com | 2 | 4.5 | 20.1 | 23.8 | 2.6 | 6.6 | 7.1 | 2.5 | 51 | 4.9 | $600,000 set aside for com. divs.; equal 2% on stock. |
| Am. Locomotive com | 0 | 17.7 | 18.1 | 11.1 | —3.1 | 1.3 | 7.3 | 0.5 | 37 | 1.4 | Also mfrs. autos. |
| Railway Steel Springs com | 0 | 8.7 | 8.6 | —1.3 | 5.3 | 6.0 | 0.3 | .... | 32 | 0.9 | |
| Pressed Steel Car com | 0 | 17.2 | 13.3 | —5.8 | 7.7 | 5.5 | 0.1 | .... | 32 | 0.3 | |
| Am. Linseed pfd | 0 | .... | .... | .... | 5.8 | 4.5 | 2.6 | —2.8 | 28 | 0 | |
| Central Leather com | 0 | 0.4 | 0.4 | 1.3 | 6.3 | —2.1 | —5.1 | .... | 27 | 0 | Earned 5.2% first 9 mos. 1912. |
| Inter. Steam Pump com | 0 | .... | 3.7 | 2.0 | 1.4 | 2.8 | 2.0 | —0.9 | 14 | 0 | 1911 earns. 2.9%. 18 mos. Fisc. yr. changed. |
| Pacific Mail | 0 | 1.4 | 0.7 | —2.1 | —1.7 | —1.1 | —1.0 | —0.1 | 26 | 0 | Contr. by So. Pac. Panama Canal should incr. earnings. |
| Sloss-Sheffield com | 0 | 5.3 | 9.9 | 4.9 | 6.6 | 2.0 | —0.6 | .... | 35 | 0 | |

# The Investment Digest

**THE sources of items are indicated as follows: *Leading financial and investment publications. †Banking and Stock Exchange houses. §From official sources. Neither "The Magazine of Wall Street" nor the authorities quoted, guarantee the information, but it is from sources considered trustworthy. We endeavor to present in a few words the essential facts in regard to each company. For additional earnings, see also "Bargain Indicator" and "Monthly Net Earnings."**

**Agricultural Credit.**—*A NOVEL INCORPORATION.—Recently incorporated to buy and hold for investment, promissory notes or obligations executed by farmers in purchase of tools and machinery. Has sold $6,000,000 col. trust 5% notes, secured by pledge of farmers' notes equal to 120% of par value of col. trust notes.

**American Agricultural Chemical.**—*NORMAL BUSINESS.—Cause of slump in stk. was sympathy with decline in Va.-Ca. Chem. No cause for anxiety as to fertilizer situation. Expected Co. will earn 4% com. div. twice over in current fisc. yr.

**American Beet Sugar.**—*COMMON DIV. NOT EARNED.—Fisc. yr. ends Mar. 31, but Co. in the interval will produce no more sugar. It is therefore practically settled that for entire yr. Co. will not earn 5% div. on com. Probably 2 or 3 yrs. at least before another div., as any reduction in raw sugar duty below 7/8 cent a lb. would reduce earnings of nearly all beet sugar Co.'s.

**American Brass.**—*EARNINGS yr. ended Dec. were about 15.1% on stk., against 9.6% in 1911, 12.5% in 1910, 11.7% in 1909. Surplus was $8,181,599, equivalent to $51.00 per share. Merchandise raw, wrought and in process, 1912, $6,254,238, against $5,216,-885 in 1911. Rumored that with some manufacturers orders since Jan. 1 have fallen off 30%, which may explain their reluctance to buy copper beyond immediate requirements.

**American Can.**—*EARNINGS AND FINANCING.—Banker in close touch with Co. says: "Street looks at Can financing in too narrow and technical a way. It is objected that Co. is issuing bonds to pay accumulated divs. which were not earned. But since organization Co. has turned back into property for rehabilitation, extensions or additions, and taken directly from earnings, a sum considerably greater than the accumulated divs. of $13,500,000. Thus, although 7% div. was not shown as fully earned, it was earned as a matter of fact, but directors thought it wiser to improve property and build up credit. There would have been no criticism if directors had shown 7% or better earned yrly., paying 7% divs. and selling millions of bonds for construction and new capital." Annual report shows 8.85% earned on com., after 7% on pref., and after deducting $983,886, for improvements and depreciation.—*Co. will pay at least 25% of accumulated pref. divs. April 1. This equals $10,300,000 extra disbursement, part of which will come out of proceeds of sale $14,000,000 5% debentures. No question as to safety of debentures, as they carry the only fixed chg. against the property, and no other lien can be created except for short term for current business requirements, or for purchase money mortg. on new property. Under N. J. laws, a corp. cannot pay on accumulated divs. a sum greater than the balance sheet surplus. Hence, directors can pay 25% in April, but 1913 should show surplus equal to at least 8% on the pref., and distribution of this item in 1914 would entirely extinguish accrued divs.

**American Cotton Oil.** — *IMPROVED BUSINESS.—Current earnings estimated at rate of over 7% on com., against 6.5% for yr. ended Aug., and deficit of $252,105 preceding yr. Stated that Fairbanks plant in Chicago alone is earning pref. divs.

**American Hide & Leather.** — *EARNINGS AND ASSETS.—Six months ended Dec. showed earnings at rate of 6.5% yrly. on pref., after deducting interest and sinking fund chgs. Net current assets exceed par value of bonds by $3,450,000, which is $26.50 per share on pref. stock. Present market price is less than that figure.

**American Ice.**—*GOOD PROGRESS.—Annual report of Am. Ice Co., operating Co. behind Am. Ice Securities Co., for yr. ending Oct. shows decr. in net earnings of $160,000, making per cent on pref. 2.47, against 3.97 in 1911, 3.22 in 1910, 7.37 in 1909. There was an incr. in deductions for interest, taxes, insurance, maintenance and improvements of $60,000. Present management has devoted energies to building up the property rather than paying divs. Fictitious good-will account has been reduced 50% since 1904, and com. st. correspondingly reduced, increasing assets behind pref. nearly 40%. Tangible assets behind pref. in Oct. 1904, were $39.53 a share; Oct. 1912,

$54.00 a share. Natural ice properties have been superseded by modern factories, producing ice in Southern cities at a cost equaling frt. from Maine and other natural sources of supply. Thus Co. is no longer dependent on vagaries of weather, but can foretell cost of its product. In past yr. large plants in Philadelphia and Baltimore were placed in operation. In 1913 plant will be erected in Washington. During yr. issue of $6,500,000 30-yr. 6% bonds were authorized, of which $3,000,000 were sold to retire 1st. mort. bonds, balance to be used to refund other maturing bonds. Am. Ice Securities, whose stock is listed, owns 96.2% of pref. stk. of Am. Ice Co.

**American Light & Traction.** — *NEW STOCK.—For 1912 Co. earned 27% on average outstanding com. stk., against 28% in previous yr. Regular quarterly divs. are 2.5% cash, and 2.5% in stock. Special meeting Mar. 17 to take action on incr. of com. from $15,000,000 to $40,000,000, to take care of stk. divs. in 1915 and later. Should new properties be acquired in the meantime, part of proposed new stock would be issued to pay for them. All properties are now in good physical condition, large sums having been spent on them in 1912.

**American Linseed.** — *BUSINESS UNCERTAIN.—First 6 mos. of fisc. yr. showed gratifying improvement, but in view of uncertainty of linseed oil business it is not safe to make predictions for the full yr. as yet.

**American Locomotive.** — *LARGE ORDERS on books insure operation at full capacity at least to June 30. Montreal plant is booked a full yr. ahead.

**American Public Utilities.** — *EARNINGS.—Six mos. surplus to Dec. 1912, from sub. Cos. equals 8.9% on com. stk.

**American Radiator.** — *EXTRA DIVIDEND.—Stk. div. of 10% on com., with regular quarterly 2% and 2% extra; 10% stk. div. was also declared a yr. ago.

**American Smelting & Refining.**—*EARNINGS AND IMPROVEMENTS.—Earnings fisc. yr. ended Dec. about 14% on com., before writing off depreciation and amortization, which equalled $1,887,399 last yr. Net for com. probably about equal to 1911, of 10.9%. Co. is committed to policy of putting earnings back into the property. Last yr. saw completion of smelting plant at Hayden, Ariz., to handle Ray Consolidated mine and custom ores; and refining plants enlarged and improved. Co. is adding to its buildings valuable mines and contracts from time to time.

**American Steel Foundries.** — *DIVIDENDS RESUMED.—Stock was placed on a 2% yrly. basis recently, on the strength of showing for 1912—a surplus of $777,756 against deficit of $514,802 in 1911. Earnings last yr. equaled 4.5% on stk., and balance of $353,491 for last quarter was at a yrly. rate of 8%. Beginning this yr., $343,680 4% debentures must be paid off annually at par. Co. is operating at 90% of capacity, and is booked 6 mos. ahead. Stated that tariff reduction would hurt the Co. only by affecting general business and perhaps by causing railroads to curtail equipment expenditures.

**American Sugar.**—*DISTRIBUTION OF NATIONAL SUGAR.—Decision of directors to offer stockholders right to subscribe to 50,000 shares National sugar stock at par is a surprise. Originally, Am. Sugar owned a trifle over half of Nat. Sugar pref., or 25% of total stocks, but cancellation of Nat. Sugar com. left Am. Sugar with 51%, or a majority. Competition between the two Cos. is keen, but to keep within the spirit and letter of the Sherman Law, directors determined to eliminate this majority ownership. Subscription price is par, against current market level of 115, giving a small right. Nat. Sugar pays 6%, and earnings have averaged over 9% for six yrs. If stockholders take the entire 50,000 shares at par that will bring $5,000,000 to Am. Sugar, practically equaling original cost to Co. in 1900.

**American Telephone & Telegraph.**—*NEW BOND ISSUES.—Directors authorize issue of $66,952,120 4½% convertible bonds, to run 20 yrs., and convertible into stk. at 120 after March 1, 1915. Bonds will be offered stockholders at par, to amount of 20% of their holdings.—†Decline in stk. probably due to combination of announcement of convertible bond issue and fear of Federal investigation, coming at a time when investment capital is timid. So far as earnings are concerned there is nothing to warrant a decline. Am. Tel. has been depression-proof, earnings having shown increases in good years and bad alike. Total fixed chgs., including interest on new bond issue, will be less than $9,000,000. (See Western Electric.)

**American Tobacco.** — *INCREASED DIVIDEND.—Quarterly div. 5% and extra div. of 15% on com., placing stock on 20% basis, an increase of 2½% quarterly. Extra div. represents proceeds of sale of treasury securities in accordance with Supreme Court decree. Previous extra div. of 20% had been declared.

**American Writing Paper.**—*EARNINGS.—Yr. ended Dec. 1912, surplus for divs. increased $81,944, and equaled 2.8% on pref., which pays 2% yrly. This was in the face of an incr. in wages, which was offset by larger output and better prices. For 1911, earnings on pref. were 2.1%; 1910, 1.8%; 1909, 3.7%.

**Atchison.**—*HEAVY BUSINESS. — Six months ended Dec., Co. earned at annual rate of 10.5%. Incr. over last yr. in gross earnings was $6,291,575, of which 40% was saved for net after taxes, in spite of heavier maintenance and transportation costs.

**Atlantic Coast Line.**—*GOOD EARNINGS.—Co. will earn this fisc. yr. about 10.4% against 11.9% in 1912. This is about 8.1% on market price of stk., against 10.3% for Louisv. & Nash. Difference is due largely to fact that the price of A. C. L. includes its equity in L. & N. Latter Co. is in position to offer valuable rights whenever it needs to do financing, which would accrue to A. C. L. as majority stockholder.

**Atlantic, Gulf & West Indies.**—*FISCAL YEAR TO DEC.—Co. earned interest on $13,000,000 5% bonds nearly 1½ times. Probably 1913 will show this interest earned twice over. Co. has in service, exclusive of tugs, barges, lighters, etc., total of 226,736 tons of steamers. Older boats are steadily replaced with new and finely equipped. Gain in gross tons is not great, but advance in quality and efficiency of service is marked.

**Baltimore & Ohio.**—*EARNINGS.—Gross earnings 6 mos. ended Dec. gained 11.8% over 1911, and net earnings incr. 7.8%, notwithstanding maintenance expenditures nearly $2,000,000 greater than in 1911. Fisc. yr. ended June last, Co. earned 7.5% on com.; 6.8% in 1911.

**Bethlehem Steel.**—†BIG ORE PURCHASE.—Tariff reduction would affect Co. less than other steel Cos., because it is engaged largely in governmental work, where it already competes with foreign manufacturers. Also, most of the ore used is brought from Cuba, and Co. has just bought extensive ore properties in Chile. On these imports it now pays duty of 15 cts. a ton, elimination of which, in reduction of duties, would be probable.—*Fisc. yr. ended Dec., gross business exceeded 1911 by 20%. Co. earned between 7 and 8% on com., after 7% on pref. Divs. on pref. may begin this yr. Plants are operating full.—*C. M. Schwab announces purchase of Tofo Iron mines, Chile, containing 100,000,000 tons of very rich ore, assaying 67% metal, with very little phosphorus. He says: "This property, and additional construction, will incr. output of plant 60%. We purpose building not less than ten steamers for transportation of ore."

**Boston & Maine.**—†NEW CAPITAL.—Announcement of $10,000,000 5% notes calls attention to the fact that $35,000,000 new money has been contributed by stockholders and investing public, for building up physical condition and finances, all within a yr.—mostly by Co's. own stockholders. It would seem justice to suspend criticism until the effect of this expenditure can be realized.

**Brooklyn Rapid Transit.**—*INCREASED EARNINGS.—Jan. earnings increased $125,000. Sept. quarter gross increased 3%; Dec. quarter 4½%. Jan. travel was stimulated by favorable weather conditions. Earnings on stock yr. ending June next should be about 9¾%. Possibility that directors will incr. div. to 6% some time in 1913.

**Canadian Pacific.** — *EXTENSIONS. — President Shaughnessy says: "New work on Western division this yr. will include finishing some 300 miles of new line, and building 500 miles additional, including a tunnel 5 miles long at the foot of the Selkirk Mts."

**Carolina, Clinchfield & Ohio.**—*EARNINGS.—Surplus revenues 6 mos. ended Dec. were at yrly. rate of 1.6% on com., after 5% on pref.

**Chesapeake & Ohio.**—*LARGE YIELD ON PRICE.—At current price, stock yields more than any other standard railroad issue. Earnings current fisc. yr. probably slightly more than 1912. For first half Co. earned nearly 3.5% on com., leaving margin of 1% above div. requirement. Co. recently authorized purchase of $1,000,000 equipment.

**Chicago & Alton.**—*DEFICIT.—Deficit after charges 6 mos. ended Dec. about $73,700. Maintenance chgs. have been largely increased. Union Pacific, owning over $10,000,000 of Alton's pref. stk., is practically committed to supervision of the Co.

**Chicago, Burlington & Quincy.**—*BIG EQUITIES.—Fisc. yr. ending June, 1913, promises to show 17.1% on stk. against best previous showing of 15.1% in 1911. All earnings above 8% divs. theoretically belong to Gt. Northern and No. Pac., and should either road be pushed to meet its 7% div. requirements, assistance of Burlington would be readily obtained. Great Northern this year ought to earn $23,600,000 for its stk., and counting Burlington equity, this would be about $28,650,000, so that Grt. Nthrn. div. may be said to be protected by $13,500,000, or over $5.00 a share. No. Pac. should earn $22,320,000, and Burl. equity would make this $27,370,000, making protection for div. about $4.00 a share.

**Chicago Great Western.**—*IMPROVED RESULTS.—Six mos. earnings show results of economy and active soliciting campaign for traffic. Losses of last yr. have been more than offset by gains this yr., net being 13.5% larger, although maintenance expenditures have been 8.5% more for 1st five mos. of yr., and equipment 5.8% more. Operating ratio now 69.95% against 70.24% last yr. President Felton believes that this ratio can be reduced to about 65%. Earnings for the yr. may reach $1,200,000, against $183,699 in 1912, and $767,907 in 1911.

**Chicago, Milwaukee & St. Paul.**—*RIGHTS.—Stockholders receive a right worth about 24 cts. in connection with offering of $14,000,000 additional convertible 4½% bonds. This is on the basis of market price of 104 for the bonds now traded in on the Exchange. First half of current fisc. yr. shows earnings about 7.25% on the com., almost five times the showing for the full yr. ended June 30, 1912. Second half will show smaller gains in net, as operating expenses are pretty sure to rise.

**Chicago & Northwestern.**—†POSITION OF ROAD.—Applying surplus earnings to both pref. and com. stks. together, current yr.

should show 9½%, against 7½% in 1912; 8¼% in 1911; 8% in 1910. Since 1904, average miles operated have incr. only from 7,400 to 7,960. This lack of growth has led to solidifying of the system and it is now one of the best equipped and best maintained railroad properties in this country; but lack of external development is shown by slow increase in net earnings, which have incr. scarcely $1,000,000 although gross has risen $17,000,000. It is a question whether Co. may not some time be compelled to build its own lines to the Coast.

**Chicago Pneumatic Tool.**—*ANNUAL REPORT.—Earnings yr. ended Dec. were 12.9% on cap. stk., before depreciation, against 9.37% last yr. (Controlled by Beth. Steel.)

**Chicago Railways.**—*EARNINGS.—It is figured that for yr. ended Jan., 1913, system will show 8% on No. 1 stk. with balance equal to 5% on No. 2 stk.

**Cities Service.**—*INCREASED DIVIDENDS.—Surplus for com. stk. yr. ended Dec. was 9.29%. Monthly divs. declared of 5/12 of 1%, an incr. of 1/12 of 1% over previous payment, placing issue on 5% yrly. basis.

**Colorado Fuel & Iron.**—*SPECIAL DIVIDEND.—Dividend of 35% on pref. stock. Accrued divs. remaining, about 39%.

**Colorado & Southern.**—*EARNINGS.—For six mos. ended Dec., gross earnings incr. $289,307; net earnings after taxes decr. $42,608; surplus after fixed chgs. decr. $16,392.

**Consolidation Coal.** — *FINANCING. — Reg. quarterly div. of 1½%. Co will immediately begin installation of facilities in W. Va. and Ky. involving some $10,000,000, to be raised by issue of 6% convertible notes.

**Consolidated Gas.** — *LARGE ADDITIONS.—Net earnings in 1912 decreased, although sales of gas gained 2.9%. Decrease was due to extreme weather early in 1912, and incr. in cost of materials. Total net from Co.'s gas business is said to be equal to 3.3% on value of property employed in manufacture and distribution of gas. Sales of electric current incr. 22.4% over 1911. During the yr. expenditures for additions, betterments, repairs and renewals were $2,959,423 over 1911, and $5,211,471 over 1910 and equaled 12½% on outstanding stock. New York Edison, the chief Con. Gas subsidiary, earned in 1912, before chgs. for renewals and contingencies, between 18 and 19%, against 17¼% in 1911.

**Corn Products.**—*EARNINGS.—Surplus for divs. fisc. yr. ended Feb. will be about 6¼% on pref. stock. Representative says no truth in report that Co. may pay off back divs. by a debenture bond.

**Diamond Match.**—*DIVIDENDS.—Reg. quarterly div., 1½% with extra div. of 1%, same as last yr.

**Distillers Securities.**—†INDIFFERENT EARNINGS.—Co. produces great bulk of whiskey consumed in U. S. It is thus significant that in 1912, although total U. S. withdrawals from warehouses decreased only 2.4%, yet gross profits of Co. declined 13.2%. From 1911 to 1912 surplus for dividends declined from $957,623 to $527,182; but had Co.'s share of surplus of its subsidiary U. S. Industrial Alcohol been included, decline would have been from $1,086,984 to $783,036. Co. may earn, including equity in U. S. Alcohol, over $1,000,000 available for divs. (See U. S. Ind. Alcohol.)

**Delaware & Hudson.**—*GOOD EARNINGS.—For 1912 Co. earned about 12% on stk. against 12.3% in 1911, and 12.5% in 1910. In view of losses through cessation of mining operations, and incr. in maintenance of about $600,000, yr's. record is gratifying.

**Delaware, Lackawanna & Western.**—*ANNUAL REPORT.—Co. earned 36% on stk. in 1912; 39% in 1911; 43.8% in 1910. Operating revenue was largest in history, but net earnings, after taxes were lower than any yr. since 1904. Maintenance was more eleborate than in 1911.

**Denver & Rio Grande.**—†PROSPECTS.—Surplus earnings current fisc. yr. about 4% on pref. stk., against 2% previous yr. Interest on Western Pacific bonds is guaranteed by D. & R. G. In current yr. W. P. will probably earn $1,000,000 for interest, leaving $1,500,000 to be charged against D. & R. G.—*By July 1, electric power will be installed a distance of 115 miles in Utah; 87 miles in Colo. will be completed in 1913.

**Detroit Edison.**—*ANNUAL REPORT.—Fiscal yr. ended Dec. Co. earned 13% on stk., against 9.47% preceding yr.

**Detroit United.**—*INCREASED DIVIDENDS.—Yr. ended Dec. total receipts from operation incr. $1,442,296 over 1911. Surplus, after 5% divs. on stk., increased $121,957. Div. rate has been advanced to 6%, effective Mar. 3.

**Erie.** — †IMPROVEMENTS NEARING COMPLETION. — Erie's construction program, including double tracking New York to Chicago, large additions to yards, sidings and terminals, and extensive regrading, will be completed in time for next Fall's business. In spite of operating handicaps, earnings have increased liberally the past six mos., with low transportation ratio of 32.5%, against 33.5% for Pennsylvania, and 33.3% for N. Y. Central. Improvements now nearly completed will give road 50% greater tonnage capacity, and assure large earnings for the stk. sooner or later.

**Federal Mining & Smelting.**—*STOCKHOLDERS REBELLIOUS.—Group of Western stockholders are trying to divorce Co. from Am. Smelt. & Refin'g, by having contract between two companies, which runs until 1930, nullified. Claimed that contract cost Federal Co. at least $500,000 in 1912.

**General Chemical.**—*ANNUAL REPORT.—For 1912 Co. earned 22.08% on $8,558,900 outstanding com., against 20.5% on $8,151,300 stk. previous yr. There are also $654,700 subscription receipts for com. stk. outstanding.

The sum of $432,687 was chgd. off for reduction of plant and investments account, $136,717 for distribution among profit sharers, and $19,259 for U. S. corporation tax. Total charged off in 1911, $342,923.

**General Electric.**—*INCREASED PROFITS.—12 mos. ended Dec. show net earnings over 12% on present $100,000,000 capital stk. This is about 2% more on stock than in 1911. Sales and shipments made nearly 20% increase, but lower prices and higher costs cut down profits. Prices of electrical goods have never been advanced to correspond with the higher price of copper. Co. is said to have the largest volume of unfilled orders of any time in its history, and management believes 1913 will show further increases in sales and profits.

**General Motors.**—*GOOD DEMAND.—Sales and production 25% ahead of last yr. Co. is unable to accumulate stk. of cars, having less than 1,000 on hand. Half yr.'s results indicate gross of $80,000,000 for full yr. Export business is 100% over last yr., Co. having shipped abroad about 1,700 cars. Decided gain in net earnings is expected, as factory production is well in hand and costs have been substantially lowered.

**General Railway Signal.**—*ANNUAL REPORT.—For 1912 Co. earned 14.2% on com., after 6% on pref., against 7.4% on com. previous yr. Unfilled orders Jan. 1, were $971,709 against $304,781 Jan. 1, 1912.

**Great Northern.**—*INCREASED EARNINGS.—Net earnings 1st 6 mos. of fisc. yr. show increase equalling about 1¼% available for divs. Last yr's. earnings were 10.3% on stk.

**Great Northern Ore.**—*U. S. STEEL PAYMENTS.—U. S. Steel has paid Co. $4,590,800 on account for 1912, equalling $3.06 a share on stk., against payment of $3,697,500 in 1911.

**Green Bay & Western.**—*INCREASED DIVIDENDS.—Div. declared of 1¼% on Class B debentures, incr. of ¾% over last payment about a yr. ago. Usual divs. of 5% on Class A debentures.

**Guggenheim Exploration.** — *STOCKS PURCHASED.—During 1912 Co. purchased 65,246 shares Yukon gold; 97,750 Chino copper; 69,500 Am. Smelting common; 121,200 Ray Consolidated. Securities sold were 110,000 Am. Smelters Securities pref. A; $1,500,000 Smelters securities 6% bonds; 3,016 Esperanza Ltd. Earnings on Guggenheim stk. were 15.7% in 1912, against 11% in 1911; 16.1% in 1910 and 17.7% in 1909.

**Harriman Lines.**—†RESULTS OF SEPARATION. — Under proposed agreement Union Pac. is to sell its holdings of So. Pac. to shareholders of both Cos. From proceeds of sale it is to purchase Central Pacific for $104,189,941, made up of $98,740,941 cash and $5,449,000 So. Pac. 4% bonds. Possession of Cent. Pac. is vitally important to Un. Pac., as it provides the connecting link between San Francisco and Ogden. U. P. will probably receive from the sale of its $126,650,000 So. P. stk., about $124,000,000 after deducting the underwriting commission. Of this it pays to So. P. $98,740,941 in cash, in addition to $5,449,000 in bonds, leaving approximately $25,400,000 in cash, on which it is likely that at least 6% can be earned. U. P. of course loses the 6% divs. on its holdings of So. P. stk., amounting to $7,599,000, and interest on bonds surrendered, amounting to $217,960; receiving in exchange the Cent. Pac., which during the past 5 yrs. has shown an average earning power of $7,448,200 annually. This would work out to give U. P. an annual gain in earning power of $1,195,284. Similarly, So. Pac. loses Cent. Pac., but receives $98,740,941 in cash, of which amount it will probably use $28,769,500 to redeem the 4% bonds under which Cent. Pac. stk. is pledged. This would leave $69,922,441 that may be put back into the property, and may be expected to earn 6%. So. Pac. will also save the interest on $5,449,000 bonds returned to it by U. P. This makes the net annual loss in earning power of So. P. $1,924,114, or 0.7% on stk. outstanding. This would not be likely to affect the div. rate. Moreover, the road is to get about $70,000,000 cash, which will enable it to improve and extend its system, and probably in a few years it can show more than 6% on money so invested. We see no reason why U. P. cannot continue to pay its 10% com. div., and we believe it is to the advantage of shareholders of both Cos. to subscribe to the So. P. stk., rather than sacrifice their rights at the low prices of the current market.—*So. P. has valuable terminals on San Francisco Bay, and Cent. Pac. would probably have to arrange with So. P. for terminal accommodations. Industrial development of Cal., long held back by lack of coal, is assured bv presence of oil. So. P. has the oil lands, which will become a center of manufacturing activity, and So. P. will get the business. It is doubtful, however, if the value of these lands figures to any extent in present market price of stk.

**Hudson & Manhattan.**—*RE-ADJUSTMENT.—Readjustment of finances reduces fixed charges about 25% and provides for payment of $21,157,000 notes. Deposited stock is to be under a 5-yr. voting trust agreement. Holders of adjt. income bonds, as long as 5% interest is not paid, are to have one less than majority representation on the board. Present traffic crossing the Hudson is 160,000,000 yrly., of which H. & M. now carries less than 40%.

**Illinois Central.**—*IMPROVED POSITION.—Directors declared reg. semi-annual div. of 3½%. Second half of fisc. yr. promises better showing. Equipment is in 100% better shape than a yr. ago, with $8,000,000 new equipment recently ordered; shopmen's strike is over and record gross earnings show restoration of shippers' confidence. Road is in better position than it has been for a decade.

**Interboro - Metropolitan.**—*PROSPECTS.—Co. has outstanding $45,740,000 pref. stk., 5% cumulative. Accrued divs. to July next

are 30%. Principal holdings are $33,912,800 of the $35,000,000 stk. of the Interboro Rapid Transit Co., and $15,256,743 of the $17,500,000 stk. of the N. Y. Railways Co. The Rapid Transit Co., owning the subway and operating by lease the elevated lines in N. Y. City, furnishes the Inter.-Met. Co. about all the income it has, but most of this is eaten up by interest on bonds and other charges. Not much prospect for divs. on Inter.-Met. pref. in the near future.

**Intercontinental Rubber.**—*WAR DIFFICULTIES.—Co. was incorporated in 1906, and controls large areas of Guayule shrub land in central Mexico. During revolution Co. has been unable to operate mills at full capacity, or to ship out product regularly, and earnings have been reduced. When peace and order are restored Co. will make a satisfactory showing.

**International Agricultural.** — *STEADY BUSINESS.—All plants and sub-Cos. are operating at capacity and fertilizer is finding ready market. Orders now largest in years. Fiscal yr. ended June, 1912, net earnings were $2,031,209, against $1,420,346 in 1911. Present indications are that current fiscal yr. will show a gain over 1912 equaling that of 1912 over 1911.

**International & Great Northern.**—*EARNINGS.—Operating revenues fisc. yr. ended June were $10,358,773, operating expenses, $7,548,774. State Railroad Commission is considering whether the conditional interim certificates of $5,078,000 are in violation of the stock and bond law.

**International Harvester.**—*BIG EARNINGS.—Fisc. yr. ended Dec. Co. earned almost 15% on com. after 7% on pfd. This is 1% over 1911 and equals best previous yr., 1910. Co. booked full capacity until end of next harvest. Stockholders will vote on reduction of stock from $140,000,000 to $70,000,000, and change in name to International Harvester Co. of N. J. If decr. is decided on capital will be $30,000,000 7% pfd. and $40,000,000 com. New Co. will be formed, called Inter. Harv. Corpn., with $70,000,000 capital stock, for purpose of taking over foreign sales of present Co.—†In 10 yrs. gross sales have incr. 140% and bal. for com. over 400%, with physical condition of property well maintained. From 1907 to 1911 there was put back into property from earnings about half the $76,585,000 which was book value of property Dec., 1911. Co. has its own coal and iron mines, extensive timber lands and a steel plant. Besides 14 plants in this country, it has 4 in Canada and 1 each in France, Germany, Russia and Sweden. Its foreign business has incr. much more rapidly than domestic.

**International Mercantile Marine.**—*POLICY MAINTAINED.—Change of presidents will make no change in policy of Co. The only ships now under construction are "Brittanic" and "Ceramic," the latter for East India service.

**International Nickel.** — *INCREASED DIVIDEND.—Div. of 2½% quarterly declared, placing stock on 10% basis. Stated that 12% basis is probable before close of yr.

**International Paper.**—*FINANCING REQUIREMENTS.—Co. will need large sums of money in diversifying its production, and possibly building mills in Canada. As far as possible, this money will come out of surplus earnings, which makes any higher div. improbable. For 1912 Co. earned about 8% on pref., as against 2% paid.

**International Steam Pump.**—*DIVIDEND DOUBTFUL.—Fiscal yr. ending Sept. last, Co. did not earn pref. div. by $169,416. It is expected that div. will be passed at the April meeting. Co. has double handicap of advances of 15 to 40% in raw materials, and unusual price-cutting by competitors.

**Jersey Central.** — *BIG EARNINGS.—Earnings current fisc. yr. will probably exceed 30%, against 21.9% in 1912, and 26.5% in 1911. Divs. are 12%. Maintenance has not been diminished. Taxes are $116,632 higher than last yr.

**Kansas City, Mexico & Orient.**—*REORGANIZATION.—Reorganization plan seems to be to offer 1st mort. bondholders gen. mortg. 5% bonds, with percentage of pfd. and com. stock. Probably holders of stocks of the two construction Cos. will be assessed around 15%.

**Kansas City Southern.**—*EARNINGS.—Net earnings after taxes to Dec. were nearly 33% over preceding yr. Maintenance of way exceeded previous yr. by 12% and equipment by 5%. Present yr. should be better than 1911, when surplus for com. was only 0.15%.

**Lackawanna Steel.**—*CURRENT EARNINGS.—In declaring 1% div. on com. it is said that last yr.'s earnings were 3% and for 7 years have averaged 3.1%. In current yr earnings are at a rate exceeding 1910, when 7.3% was earned. Orders Jan. 1 were 630,000 tons, against 290,000 tons preceding yr. Plants booked ahead until next Fall. Current assets $20,000,000; current liab. $2,800,000.

**Laclede Gas.**—*GOOD YEAR.—Bal. for com. stock 1912 was 8.4%. Gain over 1911 was small, but satisfactory in view of lower prices for gas and electricity, with higher depreciation and interest charges.

**Lehigh Valley.**—*TERMINAL PLANS.—Co. has for years been improving facilities for handling grain, in matter of cars, service and terminals. Latest addition is grain elevator on New York harbor, capacity 443,000 bu., cost $2,000,000, to be completed about May 1. This is needed for present business, but especially for growing Canadian production. Jan. 1 N. Y. Prod. Exchange began trading in bonded Canadian grain.

**Loose - Wiles Biscuit Co.** — *LARGE GAINS.—Net profits full yr. 1912 about 25% over 1911. For first 8 mos. of its career, Co.

earned 7% on 1st and 2d pfd., and 3½% on com. If promise of early 1913 business holds good, earnings on com. will be over 6% for yr. However, erection of new 10-story factory on Long Island may cut into current income temporarily.

**Louisville & Nashville.**—†INCREASED EXPENSES.—Six mos. to Dec. gross incr. only $1,603,175, while net decr. $707,731. Poor showing in net is due to increases in maintenance of way $460,000 and structures $622,000, and incr. in transportation expenses of $600,000 due to readjustment of wages. Co. is earning 12% or 13% on stock at present.

**Massachusetts Electric.** — *NET INCOME.—For Dec. quarter net divisible income was $165,333 against $75,742 in 1911; 6 mos., $961,387, against $834,805 in 1911.

**Maxwell Motor.**—*PROSPECTS. — This Co. has emerged out of wreck of U. S. Motor with $3,000,000 cash and no funded debt. Officials estimate yrly. capacity at 50,000 machines. In addition to regular Maxwell and Stoddard cars, there will be 4 new models.

**Mexican Petroleum.** — *DIVIDEND DATES.—Co. will hereafter pay divs. 2% quarterly instead of ⅔ of 1% moly., which caused many inconveniences.

**Minneapolis & St. Louis.**—*ANNUAL REPORT.—Yr. ended June last shows decrease of $631,065 in net earnings, or 26%. Loss is attributed to crop failure along ⅓ of Co.'s mileage. Net earnings July to Nov., 1912, incr. 25% over 1911, making incr. of $435,185 in surplus. Feb. 1, Co. will pay off $1,000,000 notes and renew $3,000,000.

**Minneapolis, St. Paul & Sault Ste. Marie.**—*NEW WESTERN LINE.—Soo will extend its lines by about 725 miles of standard road through Montana, costing $25,000,000, and opening up a productive territory with no present facilities. Extension will connect with Can. Pac. R. R. proper at a point near the Montana-Washington border.

**Missouri, Kansas & Texas.**—†SATISFACTORY NET EARNINGS.—Gross earnings are increasing about 12% over last yr. and net almost as much. For yr. ending June, 1913, surplus after charges should equal 3.3% on com., after 4% on pfd., against only 0.13% on pfd. last year and nothing on com. Improved net is largely due to additions and betterments to road and equipment, amounting to $11,083,415 in last 3 fisc. yrs. This capital, together with purchase of Tex. Cent. in 1910, and Wichita Falls in 1912, is now represented in $16,000,000 2-yr. notes due May 1.

**Missouri Pacific.**—†IMPROVED EARNINGS.—Co. is showing excellent returns from its extensive physical betterment, which has absorbed nearly $30,000,000 new capital in 3 yrs.—*Six mos. ended Dec., net surplus after charges was $975,940, against a deficit of $1,435,042 for last 6 mos. 1911. St. Louis, Iron Mt. & So. has declared 2% semi-annual div., putting the stk. on 4% basis; no div. in 1911.

**Moline Plow Company.**—*SALE OF STOCK.—Co. recently sold $7,500,000 7% cumulative 1st pref. stk. Gross sales in 1912 were about $15,000,000, having doubled every 5 yrs. almost since organization of Co. in 1865. Net assets are $18,300,000, excluding good will, etc.; net quick assets estimated $14,250,000. Net profits past 5 yrs. have averaged 17½% on pref. stk.; yr. ended June, 1912, 27%.

**Montgomery Ward.** — *FINANCING. — Of $40,000,000 capital, $10,000,000 will be 7% cum. pfd. stock. Half this has been underwritten by an Eastern banking syndicate headed by J. P. Morgan & Co. Remaining $5,000,000 pref. will not be issued at present. The $30,000,000 com. stock will remain in the hands of the Thorne and Ward families. Understood the Co. has options on several pieces of N. Y. property and $5,000,000 has been set aside for erection of N. Y. plant.

**New England Telephone.**—†INCREASED GROSS.—Gross for 1912 exceeded $16,000,000, incr. of 9% over 1911. However, per cent. for stk. will be less than 1911, as $10,000,000 5% bonds and $4,000,000 stk. have been issued, involving incr. of $500,000 in interest chgs., and $280,000 in div. requirements.

**New York Air Brake.**—*GOOD EARNINGS.—Net earnings are at rate of 15% on stk. Co. is doing largest business in its history, with orders ahead for several mos.

**New York Central.**—*EARNINGS IN 1912, gross incr. $22,357,089 over 1911, and net after taxes incr. $7,223,746.

**New York, Ontario & Western.**—*DIVIDEND PROSPECTS.—To have surplus after charges for current fisc. yr. equal to 2% div. on stk., Co. will have to earn only $340,000 Dec. to June. Last 5 mos. gross is $4,341,120, largest in Co's. history. Last June annual div. of 2% was passed.

**New York Railways.**—*INTEREST ON BONDS.—Interest declaration on adjustment 5% bonds, 2nd 6 mos. of 1912, will be between 2¼ and 2½%. Confidently predicted that full 5% interest will be paid in 1913.

**Nickel Plate.**—*DIVIDEND INCREASE.—N. Y. Chic. & St. L. R. R. declared annual div. on com. stk. of 4%, an incr. of 1% over 3 previous yrs.

**Norfolk Southern.**—*SALE OF BONDS.—Co. has sold $6,000,000 1st and refunding mortg. 5% 50-yr. bonds, offered by bankers at 99 and int. $5,403,000 5% notes, due 1915, have been called for payment at par and int. New bonds enable Co. to complete new construction, including terminals in Raleigh, linking 3 short roads acquired a yr. ago, and making through line Norfolk to Raleigh, Charlotte, Fayetteville, and Goldsboro. Train service into Charlotte will be in operation by July 1.

**Norfolk & Western.**—†COAL TONNAGE.—Prosperity of road is based to a large degree on rapid growth of soft coal traffic. Its sub-Co., Pocahontas Coal & Coke, produced in 1912, 21.4% more coal than in 1911. N. & W's.

coal tonnage was 19,830,000 in 1912, against 15,468,000 in 1911, 10,956,000 in 1909, and 5,538,000 in 1902. 1913 will probably approximate 22,000,000 tons. Earnings on com. stk. now running about 11%. Co. will issue $19,000,000 4½% convertible bonds for double-tracking and branch line to new coal fields.

**Northern Pacific.**—*EFFECTS OF COMPETITION.—Six mos. ended Dec. Co. earned at rate of about 8.5% on stock, against 7.9% in 1912, and 8.2% in 1911. Story since 1910 has been one of recovery by natural growth of territory, from traffic loss through construction of St. Paul's extension to the Coast. About 15% of N. P.'s gross earnings were taken away by the new competitor. It has stood the test as few roads could. Last 6 mos. total maintenance charges were 19.4% over preceding yr; gross earnings 15.2% higher, and net earnings 14.2% more.

**Pacific Mills.**—*PROSPECTS.—Co. has begun 6% rate on $9,000,000 new stock. Remaining $3,000,000, to be paid for by Mar. 1, will not get divs. until Aug. On full $12,000,000 div. requirements will be $720,000 against previous divs. of $360,000. Co. has more than dollar for dollar in physical property behind its stk., with 315,000 cotton and 90,000 worsted spindles. In good year, Co. does gross of $17,000,000 or $18,000,000, on which profit of 5% insures net earnings of $900,000, or 50% margin over 1913 div. requirements. If ever the print business revives, Co. should earn 9 or 10% on stk.

**Pennsylvania R. R.**—*BIG EARNINGS.—In 1912, Co. earned more than $1,000,000 gross daily, and net exceeded previous records. Co. will need $40,000,000 to $50,000,000 capital. Directors favor a stk. issue. Equipment purchases in 1912 were about $20,000,000, equally divided between additions and replacements. Earnings on stk. 1912, about 9.2%. Equities in sub-Co's. earnings also were greatly increased over 1911.

**Peoples Gas Light & Coke.**—*ANNUAL REPORT.—Surplus 1912 about 7.5% on stk., against 8.9% for 1911. Depreciation allowance $1,269,961 against $1,175,647 in 1911. Rate for gas now 80c. 41 miles of mains laid during the yr.

**Pere Marquette.**—*STATE OWNERSHIP.—Governor of Michigan advocates that State take over this system, which has been in receivers' hands about a yr.

**Philadelphia Rapid Transit.**—*GOOD CONDITIONS.—Receipts 3 weeks of Jan. show gains of 10% over 1911. Since the Stotesbury-Mitten management came in, accident rate has been reduced 1/3. Co. is now on good terms with employees, with harmonious and loyal organization.

**Railway Steel Spring.**—*IMPROVED BUSINESS.—Yr. ended Dec. earnings were over 5% on com., after 7% on pref. In 1911 Co. earned 0.2% on com., and in 1910 6%. Orders on hand insure operation at capacity for mos. to come.

**Republic Iron & Steel.**—*EARNINGS.—Six mos. ended Dec., Co. earned 7.04% on pref. against 3.19% in 1911, after deducting $880,535 for maintenance and repairs against $737,501 in 1911, $680,630 in 1910. Mills are running full, with orders ahead 6 mos.

**Rock Island.**—*PROSPECTS.—Officials believe C. R. I. & P. Ry. will earn this fisc. yr. over 7% on stk. Ry. has about $15,000,000 cash on hand, and except for some $5,000,000 equipment trusts next June, will do no financing in 1913. Estimated per cent. on Rock Island Co. pref. for yr. ending June, 1913, about 3.33 against 0.7% in 1912, and 3.4% in 1911. No div. on R. I. Co. pref. since 1906.

**Rumely, M.**—*PROPOSED STOCK INCREASE.—Gross for 1912 about $16,000,000 against $10,586,000 in 1911; net about $2,400,000. Bal. for com. after pref. divs. about 13.3%. Stockholders will act Feb. 15 on proposal to incr. com. stk. from $12,000,000 to $22,000,000, to provide for future needs of Co.

**St. Louis Southwestern.**—†IMPROVED OPERATION.—During past decade road has been practically rebuilt, is efficiently managed, and has excellent promise. Cost of conducting transportation reduced from 39% of gross a few years ago to 31% now; and operating expenses from 78% to 74%. Maintenance work has not been neglected and rates are high enough to afford substantial profits. Com. stk. may show earnings of 6% in current yr.

**St. Louis & San Francisco.**—*EARNINGS.—5 mos. ended Nov., New Orleans, Tex. & Mex. division operating revenue gained about 21%.

**Seaboard Air Line.**—*FINANCING.—Co. will soon be in market for $5,000,000 funds for improvements and betterments now contemplated. This will be taken care of by the syndicate which recently acquired a block of 210,000 shares of stock, and now controls directly and indirectly about 80% of entire issue. This syndicate is composed of men connected with such institutions as Blair & Co., National City Bank, Chase National Bank, Bankers Trust, Guaranty Trust, etc.

**Sears, Roebuck.**—*ANNUAL REPORT.—Jan. sales $6,546,269, incr. of 11.7% over last yr. For 1912, balance for com. was about 19.3%, after 7% on pref. This compares with 15.9% previous yr. Balance sheet shows assets of $65,883,832, comprising real estate, good will, patents, etc., $39,502,626; securities owned $5,718,934; current assets, $20,662,271. Working liabilities $5,824,546.

**Sloss-Sheffield Steel. & Iron.**—*IMPROVEMENTS.—Pres. Maben says: "Co. has plans involving expenditure of $500,000 on property, several new coal and ore washers, and will open up new mine this yr. These outlays will be made from earnings." Co. has 4 furnaces in operation, each with capacity of 245 tons pig iron daily, and is preparing to blow in another should conditions warrant.

**Southern Railway.**—*PROSPECTS.—Fisc. yr. ending June next will probably show

3¼% to 3½% on com. stk. Big bond discount item, previous weak feature in balance sheet, has been eliminated, and $10,000,000 of floating debt discharged. This will leave $5,000,000 notes out of $15,000,000 issued in 1907. Retirement has been out of earnings.

**Tennessee Copper.**—*1912 RESULTS.—Co. earned about $1,200,000 in 1912, or $6.00 a share; $600,000 from copper sales; $450,000 from sulphuric acid production; balance from miscellaneous. During yr. $150,000 bonds were retired, and $100,000 written off for depreciation.

**Texas Company.** — *SATISFACTORY EARNINGS.—Director says earnings show steady improvement since Sept., when profits were at a rate of over 10% on stock. Div. rate will not be changed, in view of extensive exploration work and general improvements in facilities needed.

**Texas & Pacific.**—†SMALL EARNINGS.—Co. earned only $964,278 above interest charges yr. ended June, 1912, while interest on income bonds would require $1,250,000. Epidemic of meningitis along the line and disastrous floods caused great loss in business.

**Third Avenue.**—†VALUE OF STOCK.—The $16,000,000 capital stk. at price of 40 sells for only $6,400,000, and State Tax Commissioners have just assessed value of franchises at $16,750,000, giving stk. a value of over $100 on franchises alone. Co. has $2,500,000 cash on hand, all debts paid, and a promising future.*—Co. will now gain possession of riverfront Belt Lines permitting it to run its cars or give transfers as far south as the Battery. For yr. ended Dec., surplus after charges $1,718,910; depreciation $400,000; final surplus $1,318,910.

**Tobacco Products.** — *COMPANIES BOUGHT.—Co. announces purchase of the following: Melachrino & Co.; Surbrug & Co.; Booker Tobacco Co.; and ½ interest in Stephano Co. Dec. 31 there was outstanding $16,000,000 com. and $10,000,000 pref. stk.

**Toledo Railways & Light.**—*REDUCED FARES.—Details of reorganization nearly closed up, and property will soon be turned over to new Co., Toledo Light & Railways Co. Under new fare system, Co. charges 3-cent fare between 5:30 and 7:30 A. M., and 4:30 and 6:30 P. M. During other hours 6 tickets are sold for 25c. In 9 mos. net earnings were $305,000 more and No. of passengers 3,000,000 more than expected under average growth. This incr. is attributed to reduction of fares.

**Twin City Rapid Transit.**—*ANNUAL REPORT.—For 1912 earnings on com. stk. were 11.3%, showing a steady yrly. incr. since 1904, when they were 7.4%. In 1912, $362,329 was expended for renewals. Co. has 383 miles of track, including 4 inter-urban lines, and leases water-power of 22,000 H. P. capacity for use together with steam to run entire system. New construction for the yr. was over $1,000,000.

**Underwood Typewriter.** — *EARNINGS.—Net 1912, $1,700,000 against $1,277,597 in 1911, equals over 16% on com. stk. against 10.9% in 1911.

**United Fruit.**—†IMMUNITY.—As a result of comprehensive statement of the Co.'s business made by President Preston before Committee of House of Representatives it is practically assured that Co. will not be prosecuted under Sherman Law.

**United Light & Railways.** — *DIVIDENDS PROBABLE.—Earnings about 10% a yr. on com. stk. Divs. of 1% quarterly probable soon. Securities now outstanding $6,000,940 1st pref. stk., $3,060,000 2nd pref., $5,537,500 com., $4,375,000 5% bonds, and $750,000 5% notes.

**United Shoe Machinery.** — †A RICH MAN'S STOCK.—Supreme Court decision relative to dissolution of Co. is important. With bugbear of dissolution practically removed, Co. will probably resume policy of distributing surplus earnings to stockholders. In 5 yrs., 1908-12, average earned on com. has been 18.7%, and average annual disbursement, counting in stk. divs., 18%. In 5 yrs. surplus of Co. after cash div. has equaled 45% on com. stk.

**U. S. Cast Iron Pipe.**—†SHARP COMPETITION.—In 1899, when organized, Co. had producing capacity of 450,000 tons of pipe, and estimated consumption in U. S. was 600,000 tons. In 1906, U. S. Steel corporation greatly increased production of tubes and pipe, checking advance in pipe prices, so that in 1911 steel averaged $7.52 below 1907 and pipe $10.28 below. Situation is now improving. U. S. Steel has abundance of other orders, so that U. S. C. I. P. is running at full capacity, with orders several mos. ahead.

**U. S. Industrial Alcohol.**—*ANNUAL REPORT.—For 1912, earnings on com. stk. were 5%, against 4% in 1911, and 2% in 1910. Balance sheet shows assets $21,692,347; working assets $5,284,315; working liabilities $282,740.

**U. S. Lighting & Heating.**—*AUTOMOBILE STARTERS.—Niagara Falls plant now employing over 1,000 men, and has been compelled to build addition. Now manufacturing electric starters at rate of 1,500 a month. Branch offices and service stations are maintained in Chicago, New York, Cleveland, St. Louis, Boston, Buffalo, Detroit and San Francisco.

**U. S. Realty.**—*1912 BUSINESS.—Earnings for 1912 will be between 9½% and 10% on stk. against 8.3% in 1912, 9.4% in 1911.

**U. S. Rubber Company.**—*TIRE COMPETITION.—For 1912, Rubber Goods Co.'s gross exceeded 1911 by about $500,000, while net was about $1,000,000 less than 1911. Explanation lies in reduced tire prices, owing to competition. Since 1908 tire business has practically doubled. However, net from Rubber Goods Co. would be ample to enable U. S. Rubber to equal previous yrs. divs.

**U. S. Steel.**—*NEW CONSTRUCTION.—Last 2 yrs. surplus of Co. has aggregated only $8,200,000, while new construction has been close to $80,000,000. Evidently Co. will be forced to continue issuing bonds for new construction unless there is a large growth in earnings. No appropriation from earnings from new construction for two yrs. As a result, interest on sub-Co.'s bonds last quarter of 1912 was $2,540,765 compared with $2,167,447 in the first quarter, an incr. of about $1,500,000 a yr. Foreign business in 1912 was about $95,000,000, or $25,000,000 over 1911. Much of this was in China in connection with railroad building. Mr. Farrell was head of Export Dept. before becoming President of Co.

**Virginian Railway.**—*REDUCTION OF STOCK.—Proposed to reduce com. stk. by about $3,578,500 to wipe out profit and loss deficit accumulated prior to financial reorganization last May. On showing 6 mos. ended Dec., indications are that surplus of about $420,000 over fixed charges will be shown for full fisc. yr.

**Vulcan Detinning.**—*ACCRUED DIVIDENDS.—Streator, Ill., factory is running at capacity, and new plant at Sewaren, N. J., will soon be in full operation. No final settlement yet of amount to be paid Co. by American Can under recent Court Decision. When this is paid, back divs. on pref. will be cleaned up.

**Wabash.**—*LARGE GROSS.—Six mos. ended Dec. gross earnings incr. 10.3%. Current fisc. yr. will show largest business in history. Reorganization progress is slow. Receivers have applied to Court for permission to extend for 6 mos. Wheeling & Lake Erie defaulted notes due Feb. 1, about $9,800,000.

**Wabash-Pittsburg Terminal.**—*UNSATISFACTORY CONDITIONS.—Next June will be 5th anniversary of appointment of receivers. In these 5 yrs. progress has been backwards. Earnings last 6 mos. were less than in depressed yr. of 1908. First mortg. bonds once sold at 95, now 26; second mortg. once 46, now 2.

**Western Electric.** — *RECORD BUSINESS.—For 1912, total turn-over was nearly $72,000,000 against $66,211,000 in 1911, an incr. of 8%. Increase in sales was largely outside Bell System. This outside business has gained almost 100% since 1906, and European sales last yr. were of record amount.

**Western Maryland.**—†THROUGH BUSINESS POSTPONED.—Pittsburg connection was not finished as soon as expected, and Co. therefore did not get benefit from it in time to maintain divs. Without this connection, road has been practically bottled up. Nearly all business has been Eastward, so that empty car mileage has been 75% as large as loaded mileage. Believe that Western connection will begin a new era. Pending improvements of older lines of Co., handling of through traffic has been postponed till April 1, and it will probably not be until Fall that Co. will get full benefit of it. Pittsburg & Lake Erie, a part of the through line, is the heaviest traffic carrying line in the New York Central System.

**Western Union.** — †NEW POLICIES.—Year ending June, 1913, will probably show $45,000,000 gross against $42,987,807 in 1912, and $30,541,072 in 1909. Before 1909, Co.'s business was conducted on antiquated lines. When telephone management took hold, they appraised assets and reduced profit and loss balance from $18,867,461 to $5,136,318, and began policy of reconstruction and repair. Present plans call for building up of nearly $25,000,000 reserve, hence incr. in 3% divs. is impossible. These reserves, however, will create a valuable equity behind the stk.

**Westinghouse Electric.** — *STEADY BUSINESS.—Fisc. yr. ending May, 1913, should show sales between $41,000,000 and $42,000,000. There has been much price cutting among electrical companies, so that net profits will not be much over 1912, 5.9%. The old Westinghouse policy allowed a manufacturing profit of 20 to 30%, but electric companies now operate on a basis of about 14% annual average margin of profit.

**Wheeling & Lake Erie.**—*GOOD PROGRESS.—After charging to operating expenses, for maintenance, $184,000 more than in 1911, Co. showed incr. of nearly 8% in net revenue for 6 mos. ended Dec. Gross incr. 9% over 1911, 18% over 1910, and nearly 20% over 1909. Operating ratio 64.33% of gross, against 69.17 in 1910, and 68.56 in 1909, in spite of general advance in railroad costs in past few years. Joseph Ramsey says property is earning $3,000,000 a yr. above all expenses and should be out of receivers' hands within 1 yr.

**Willys-Overland.**—*FINE BUSINESS.—Earnings 6 mos. ended Dec. stated to be over 46% on $5,000,000 pref. stk. All plants operating full, and outlook excellent. Net profits yr. ending June next estimated at 23% on $20,000,000 com., after 7% on pref.

**Woolworth, F. W.**—*GOOD BUSINESS.—Co. has just ended its best yr., earning over 10% on com. (now paying 4%), after 7% on pref. Possibility of incr. div. on com.

# Mining Stocks

**This section of the Investment Digest includes some of the more important properties, in regard to which authentic and trustworthy information has appeared during the month.**

**Amalgamated-Anaconda.**—*Amalgamated is apparently earning at rate of about $13,080,000 per an available for divs. In above estimate we figure on a basis of cost of 11c. per lb. We estimate per share, $8.50 compared with $8.95 for calendar yr. 1912, and $4.47 for 1911. Co. declared regular quarterly div. of $1.50 a share. A yr. ago 50c. was declared. Div. is payable Feb. 24, to stock of record Jan. 25. The Anaconda has declared the regular quarterly div. of 75c. a share, payable Jan. 15 to holders of record Jan. 4.

**Braden.**—*In report for first half of Jan. shows that on levels recently started between No. 2 & No. 3, ore averages between 2½% and 2⅝% copper, which is approximately the average grade of the mine. The new grinding machinery is now partly being installed, and the rest on the way.

**Calumet & Hecla.**—*Annual report will show costs of nearly 9½% per lb., against 8½c. in 1911. The increase due to higher wages and extensive construction work. Earnings for 1912 by Cal. & H. proper, were nearly $5,000,000 and from subsidiaries $855,400. Co. will on Feb. 18 redeem at 102 and accrued interest entire issue of $1,685,000 ten-yr. 5% notes, issued Feb. 1909, in part payment of various subsidiary Cos. Co.'s investment in subsidiaries is over $20,000,000, and the only funded indebtedness now is $4,134,000 ten-yr. notes due 6 yrs. hence.

**Chino.**—*Production in Dec. was 3,545,104 lbs. For last half of yr. Co. produced 21,187,000 lbs., against 7,536,000 in first half, increase 13,651,000 lbs. or 180%. The regular quarterly meeting will be held Feb. 28 when an initial div. probably will be taken, but will depend entirely upon condition of treasury, the metal situation, and outlook for the future.

**East Butte.**—*Co. has paid another $100,000 of its notes making $200,000 cancelled in past two mos. Co. still has $300,000 notes outstanding of the $500,000 issued Dec. 1 last, which mature $100,000 each on March 1, April 1 & May 1 next. Present production is at rate of 15,000,000 lbs. refined copper per an., compared with 14,167,363 in fiscal yr. ended March 31 last. Profits are averaging about $120,000 a mo., equivalent to about $3.50 a share on 411,000 shares outstanding.

**El Paso Con. Gold.**—*Pres. Burris states that div. of 12½c. a share will be paid in March. The directors announce that hereafter all accumulated profits over $250,000, which will always be kept in the treasury, will be paid in divs. to shareholders. At close of 1912, Co. was earning at rate of 24% annually. The last div. declared at close of 1912 was 10c. a share. The div. of 12½c. will be paid March 31, to stock of record March 17.

**Goldfield Consol.**—*Official report for Dec. shows that Co. produced 27,903 tons of ore, containing $457,951. Net earnings were $270,561, or $9.69 per ton. Net cost per ton was $5.72.

**Granby.**—*While directors did not designate recent div. of $1.50 as "quarterly," Co. should maintain this rate even with copper below present figures. Assuming conversion of proposed new $1,500,000 bonds, stock would be increased 15,000 shares to 164,468. Computed on this basis, with production at present rate of 25,000,000 lbs. per an., and 8c. cost, earnings range from $6 per share on 12c. copper to $13.50 on 17c. copper. As Co. came into 1913 with working capital of nearly $1,500,000, and no longer under necessity of diverting earnings to construction, practically all profits are applicable to divs.

**Greene-Cananea.**—*Co. has declared div. of 25c. a share, payable March 1 to stock of record Feb. 10. Three mos. ago Co. paid same amount.—Greene Con. has declared a div. of 45c. a share payable Feb. 28 to holders of record Feb. 10.

**Isle Royale.**—*From present indications net profits for 1912 will closely approximate $53,000 or $3.50 per share. As Co. on Dec. 31, 1911, showed assets amounting to $138,000, the surplus on Dec. 31, 1912, should be about $668,000. We understand that Co.'s copper sold in 1912, averaged over 17c.

**La Rose.**—*Net profit for Dec. was $95,301; for 12 mos. $1,026,663.

**Mines Co. of America.**—*Preliminary figures for 1912 indicate that subsidiary properties made gross production valued at $2,400,000. Expenses were about $1,800,000, leaving estimated net profits $600,000. Excess liquid assets over liabilities amount to about $1,138,000. On Jan. 25 Co. paid to stockholders div. of $104,500.

**Ray Consol.**—*Production for Dec. was 3,830,000 lbs., the largest by 250,000 Co. ever reported, and brings total for yr. up to 35,-

931,000 lbs. Co. began production in April 1911, and will have no difficulty this yr. in producing at least 50,000,000 lbs. of copper, with a decrease in cost to 9c.

**Shannon.**—*Co. will now issue to stockholders interim statements. Cos. begin to realize that stockholders are entitled to more than yearly reports. A good showing is made for the four mos. ended Dec. 31, total earnings $208,871 or about 70c. per share, in spite of fact that Sept. and Oct. were very poor. Financially, Co. is in fair shape and with Jan. payment of the div. of $150,000, should have net working capital of $350,000.

**Utah Copper-Nevada Consol.**—*Utah's production for Dec. of 5,975,000 is a gain of 1,173,000 lbs. over Nov. Nevada's Dec. output of 3,975,000 lbs. is about 200,000 lbs. under that of Nov. The slight decrease was due to severe climatic conditions coming soon after the strike. Nevada showed a deficit of $42,540 after divs. for last quarter of 1912. After depreciation, and ore extinguishment, there was a net charge to undivided profits of $270,530. Balance sheet shows metals on hand and in transit at the yr.-end totaled $2,886,660, and cash amounted to $739,951. Accounts collectible were $312,797. Surplus totaled $8,071,579 and undivided profits $3,172,177. The net operating revenue of the Utah Co. for yr. ended Dec. 31, 1912, was $6,226,328 against $4,501,-900 in 1911. The balance available for divs. was equal to $5.36 per share compared with $3.96 previous yr.

**Wettlaufer Lorrain.**—*The income account for yr. to Dec. 31, 1912, shows total receipts $515,797, increase of $34,429 over previous yr., and net profits of $320,249, a gain of $6,859. Divs. of 20% were paid on the $1,416,590 stock outstanding, after which there was a surplus of $36,931. The balance sheet shows assets of $1,703,152; working assets of $252,522, working liabilities of $26,820 and profit and loss surplus of $259,741.

**Wolverine.**—*Co. produced in 1912, 9,120,-485 lbs. of copper against 9,630,639 in 1911. Poor showing in July was result of a minor official's action, in absence of his superior, in "taking advantage of high copper metal prices to treat a lower grade rock."

**Copper Notes.**—*Statement of Copper Producers Asso. for Jan. stocks on hand 123,198,732 lbs., an increase of 17,885,350 lbs. Production for the mo. was 143,479,-825; domestic deliveries, 65,210,030, exports 60,383,845, and total consumption 125,593,-875 lbs.

## Statement of J. P. Morgan & Co. to the Pujo Committee

THERE have been presented to your committee elaborate tables from which it has been inferred—and in many newspapers stated as "proved" that a "group" of 180 directors "controls" the assets of corporations whose aggregate resources are twenty-five billion dollars.

No such control exists and no such deduction can be properly made from these tables.

Those who have made such deductions have fallen into several obvious errors; they fail to observe, first, that of the total number of directorates in these particular corporations this "group" represents only about one-quarter; second, that upon this assumption, these men, in order to exercise "control," must act and vote in every instance as a unit, although they come from different parts of the country, and represent diverse and frequently conflicting interests; third, that, upon this assumption, the directors outside of this "group" must be mere dummies, with no voice or opinion of their own who, in almost every instance, are overruled by minority; finally, that this sum of twenty-five billion of dollars is not actual cash or liquid assets, susceptible of manipulation or misuse by the directors, the fact of course being that the great bulk of this enormous sum is, and for many years has been, tied up in the form of rights of way, rails, ties, equipment, factories, plants, tools, manufactured goods and other forms of corporate property necessary for carrying on railroad and industrial business in the country.

In this connection, it is important to note that, according to authoritative statistics, the country as a whole has been growing so rapidly that, whereas, in 1900 New York City banks represented 23.2 per cent. of the banking resources of the United States, now they represent only 18.9 per cent. of such resources.

Today in all of Great Britain, including England, Wales, Scotland and Ireland, there remain only 116 separate banking institutions; in Germany less than 500; in France, according to the most complete record that we have, only 27, while in the United States, notwithstanding the consolidations alluded to, there are still more than 25,000 distinct banking institutions. In London there are ten banks with resources in excess of two hundred million dollars each, in Paris four, and in Berlin five, while in New York there are at the present time only three banking institutions of like proportions. If our large railroad and industrial enterprises are to be financed (it being estimated that the annual requirements of the railroads alone are $2,500,000,000), and if this country is to keep a commercial position in the front rank among the nations of the world, it is only natural that some tendency toward cooperation among financial institutions should show itself here, as it has in England, Germany and France.

# TRADERS DEPARTMENT

SPECULATION: Operations wherein intelligent foresight is employed for the purpose of deriving a profit from price changes.

# Notes on Office Trading

## IX—Market Diagnosis (Continued)

SECONDLY, a reverse movement may start with little or no warning. See the "trend diagram" in the December issue, which shows one instance when this happened, in July. If the trader is already operating on the side of the coming move, and the move is delayed, he will at least have a chance of getting some scalping profits.

A third reason is that changing over after a move is apparently under way involves the uncertainty whether the move is really a move at all, and not a rather wider fluctuation than usual. If it should prove to be so the trader has whipsawed himself, and may have trouble in getting into step again.

* * *

There are occasions, every year or so, when such ideas and considerations as are being here discussed would have only a very indirect application, or none at all. Some emergency or catastrophe arises, the natural effect of which upon the market is, for the time being, subversive of the normal sequence of market movements. The trader must not allow himself to be deceived by the apparent indifference shown by the market for hours or even days. It does not do to expect that the natural effects of a major, unexpected happening will not be manifested. They practically always are, even if there is some delay and a manipulated "bluff" action first. No rules could be laid down nor principles evolved for action under abnormal conditions. These notes are based on the assumption of normal conditions.

So far, we have been discussing the fundamental principles upon which the trader starts to form his judgment in respect of expecting a rise or a fall in prices; in other words, whether to take a bull or a bear attitude towards the trading outlook. He must be bullish on general grounds before buying anything, and must stand ready to mistrust his bullishness in regard to any particular stock or stocks if he has any reason to cease to be bullish on the trading situation in general.

The general considerations already outlined or suggested, and all similar lines of argument, must be supplemented by a broad review and comparison of the technical position of as many of the active stocks as possible. The object being not only the formation of the trader's judgment as regards the bullishness or the bearishness of the outlook, but the further opinion as to the kind of movement that is probable under the circumstances; e. g., whether a broad, general move or a mere trading position is indicated.

The technical position of the separate stocks has to be regarded in a way which actually begins with a broader view than is necessary, or even always desirable, in the case of the market as a whole. If all stocks moved together, and reached their final culminating points simultaneously, it is evident that market study (and money making?) would be a simple matter. An analysis of a ten-stock average might be made, for example, and operations in any active stock could then

be regulated by the results with little or no detailed discussion of the separate stocks. The financial results attained would then depend almost entirely upon the trading method adopted.

Everybody knows how far this is from being the case. If diagrams of "swings," similar to those shown for Union and Reading in the December issue were made for, say, ten or twenty active stocks, every imaginable combination of long and short, parallel and contrary movements would be disclosed. The general drift, up and down, during the broad fundamental movements would be more or less discernible, of course, all through, and at one point, and only one, they would generally be found to "arrive" together—in a panic. The trader's *choice of sides* depends upon his opinion as to the general trading outlook, but his *actual trading judgments* are based on the results of his study of individual stocks.

Misunderstanding of this point is a fruitful cause of loss to the average trader. He will buy a stock that is palpably being distributed just because temporary trading conditions are bullish. When the expected rally occurs, if his diagnosis has been correct in that regard, he is liable to find that his stock fails to make good. The real fact is, the market as a whole is, at any given moment, merely the average position of its constituent parts at that moment. Hardly any two of the active stocks may be at the same stage of their journey.

The major movements of a stock are stages of a regular "campaign" in it, frequently covering months for the intermediate swings, and literally years, in many cases, for the broad, fundamental moves. Union, for example, might not be actively manipulated for weeks, and might remain within a comparatively narrow range. That doesn't mean, however, that there is no one watching things with a "plan of campaign" to be brought into use when conditions suit. Some unexpected state of things may arise that will compel the "insiders" to get busy long before they had anticipated. This has happened, in my time, on many occasions, and has led to highly interesting market movements.

The only possible way for the trader to attain any clear idea of the probable relative position of any one stock is by constant comparative analysis of the price movements of a large number of active stocks. At the termination of each market outburst, when the usual dullness succeeds the "feature," the relative positions of the stocks among themselves will be found to have changed, if even only slightly, and their activity and range during the feature will be seen to vary each time. I have a pretty good mental picture of the past history of a number of stocks—many of which I never traded in, and have no intention of trading in, unless their status changes—but nevertheless I spend a good many hours (and much tobacco!) conning over my records. And I find it pays me well to check my ideas in this way.

* * *

The technical position of a stock, at any point between its ultimate accumulation and distribution levels, may be considered as depending upon the temporary disposition of the trading community towards it, or their actual position in it. In a bull campaign the temporary assistance of the public around any given level will be likely to lead to a disciplinary reaction, and it may take quite a little setback to shake them out. The real move will be resumed when the public is out and bearish to a man—till it again makes new high prices. But it then does not take long to make some people again bullish. So it does not do for the trader who has bought on the shake-out to neglect close stop-profit orders!

The argument is a little different in the case of declining prices. The public will resist the early stages of a marking-down by buying "on reactions." It then takes quite a break to scare them out till the last margins are used up, so that the trader who is short can usually await a good "shake-out" with much more justification than he should look for a bulge when he is long and has a good profit—on paper.

* * *

Nearly everything connected with the momentary action of stocks is relative. In nothing is this more true than as regards volumes. A million-share day in the fall of 1909 was normal. Lately, half

a million shares has meant riotous activity. Nevertheless, let the trader compare his weekly "barometer" for the past three months (September to November, 1912, inclusive), with that for the corresponding period (August to October) of 1909. The price-range has been practically the same! When big things are doing, and the real people mean business, more shares change hands, to and fro. It may be doubted, however, whether so very many more shares, of the kind that ultimately count, change hands. This point must be borne in mind, constantly. It must not be assumed that the "trend" can't turn down till we have had a boom, nor turn up till we have had a big slump, or a panic.

At this point we quit the consideration of matters of general principle. The remaining articles will be devoted to points of practical detail in actual trading.

These will be, relatively, much easier to write. I had not realized the difficulty of describing my own mental processes.

*One fact seems to stand out, as the result of my attempts—the supreme importance and necessity of judgment as the basis of trading decisions.*

*There seems to be very little direct mechanical aid in judgment-forming possible.*

(*To be continued.*)

# Men and Their Methods

**By ZIZ**

BUYING your stocks outright does not insure you against loss any more than the current of a river turns when you throw a chip into it.

Stocks fluctuate whether you are long or short. Your hundred shares in the box are affected by every one-eighth change in the market, just as much as your friend's hundred on margin or your neighbor's fifty in a bank loan.

So do not console yourself with the thought, "It will come back some day."

It may not.

Or if it does, your chin may be bumping your nose for lack of teeth and your grandchildren will get the benefit—not you.

The time to make a profit is now and the system of filing certificates away in boxes does not appeal to me, except in panic times or in violent breaks when conditions make panics highly improbable.

Today I heard of investors with Wabash that they bought at 61, St. Paul at 164, also Steel that they could have sold above 90. This beautiful situation is a development of the paid-in-full idea.

In a small town up the State there are perhaps fifty investors who get in and stick till their patience or nerves are exhausted and they sell out at tremendous losses. There is also one man who knows how to sell short, take a small loss, wait for a good chance to invest, hold for a good profit, protect himself with stops and do other things known to scientific traders.

So here you have a miniature of the situation throughout the country: Fifty people buying outright and letting losses run; one man dodging losses and letting profits run.

During the Pujo Committee investigation the managing partner of one of the largest New York Stock Exchange houses testified to the fact that sixty or ninety days prior to January 22 the clients of his house were ninety-nine shares long to every one share short. So you see how the average works out—nearly everybody gets on the long side and sits there.

Two principal causes of this are: (1) The natural inclination to buy and get possession of one's property or buy with intent to sell at a profit, and with the notion that changes in prices make no difference to the real investor and that

he will eventually sell at a profit; (2) the almost unvarying bullish advice given by the majority of brokerage houses, newspapers and other forms of financial literature.

The ideal client of the ideal broker would buy, sell out, sell short, wait or do whatever else the trend of the market called for. He would not eternally buy and sit.

Unless you carefully choose your buying times you will often be tied up nine months out of the twelve, and then make only a small profit, if any. For there are not more than one or two times a year when out and out purchases should be made—in some years buying should not be done at all.

The uncasing bullishness of many brokerage houses is easily traced to the natural leaning of the public toward the long side. The houses exist on commissions, and experience has proved that little business results from bearish advices. So "bull dope" is fed to the populace and the latter "falls" for it.

When a broker claims that he can't get business on bear talk he is exhibiting laziness or ignorance. It *can* be done and this has been proven time and again. But there is a more serious side to such a confession; in making it the broker places his own interest above that of the client. He practically says, "I must make money whether the client does or not." Thus does he place himself on the toboggan slide to obscurity.

But the investor is not obliged to follow the advices of the always-a-bull house. He should have a mind of his own, and use it.

The market does not always go up, therefore it is not always time to buy.

But if you still cling to the ancient idea that you must always buy first in order to make a profit do not fool yourself by thinking that an indemnity policy is attached to the stock certificate you tuck away in your safe deposit box.

The market price of that stock, the earning power and the financial condition of that company should be watched even more closely under such conditions.

For the greatest losses in stocks are *not* suffered by those who trade on margin, but by the paid-in-full investor who buys something and "lets it soak."

# Chips from an Old Block

By SCRIBNER BROWNE

THE irreverent reader may be tempted to suggest that all I need to do is to add the word "head" to the above title in order to have a perfect description of what I am likely to write. It may be so, yet the editors of this magazine tell me that my occasional contributions to their columns are welcomed by their readers. About the only qualification I have for writing such articles is experience. Almost anybody could put the same ideas in better form.

Undoubtedly there are a great many points in my experience that would be of value to others if only they could be in some way transferred to those others *in toto,* in the same shape that I have them. Most of these points have been hammered into me in such a manner that I am not likely to forget them and whenever they come up in my mind, they are accompanied by numerous illustrations and recollections which make their application clear to me.

I have long since learned that the contents of one man's mind cannot be transferred into another man's mind by means of language—which is at best an imperfect tool. You may write out your idea and I read it and say "Oh, certainly, that's easy. I found that out long ago." But what I probably have in mind is an idea of my own which is somewhat similar to yours. The chances are that I am a long way from having your idea as you have it, with all its associations, in-

terrelations with other ideas and applications.

After all the most any man can hope to do is to present to others some suggestive ideas, which they can pick up and turn over in their minds, modifying them and fitting them into their own experience and their own ways of doing things. I am going to set down a few such ideas. If they bore you, you have my permission to skip along to the next article.

* * *

IT seems to me that one of the biggest mistakes made by most active traders and many investors is that they conceive the stock market as always in motion. By that I mean that they think of the market as normally being either a bull market or a bear market. They hardly ever consider the possibility of its being neither, but merely resting on a stationary plane, with trifling see-saw fluctuations, until something happens to move it up or down to another plane.

If you will take a chart showing the daily high and low of any average made up of 20 or more stocks, and examine it for a period of six months, with this idea in mind, you will see that the market spends most of the time on a level, with only a trifling wave-like motion of a couple of points up and down.

I keep a rough record of an average of 25 railroad and industrial stocks, which is made up by one of the newspapers. Starting the first of September, 1912, for example, the market, as shown by this average, fluctuated over a narrow range from September 3 to September 16. At this time bullish factors were accumulating—big crops, heavy gross earnings of railroads, active business in Steel and Copper. There were bearish factors in the situation, too, but the bullish items proved the stronger.

Between September 17 and 24 the market moved upward to a higher plane Then from September 25 to October 10 came another period of minor fluctuations. Next prices declined until October 29, rallied sharply the day after election, but lost the advance. From November 9 to December 3 the averages kept within a two point range. Then came a drop to December 16, followed by a rally. From December 20 to January 11 another swing in a two point range.

During three periods, totaling 51 days, the market might be said to be in motion; and during three periods totaling 63 days, it was practically stationary, at three different levels. I suppose the professors of economics and finance would call the two classes of periods dynamic and static respectively. The ordinary university professor does dearly love a big word.

* * *

ONE reason, I suppose, why most traders think of the market as normally in motion either upward or downward, is that even during a static period there are likely to be sharp movements of individual stocks. These create an illusion of motion, although the market as a whole is practically stationary.

Another reason is that most traders want the market to move and can make profits only when it does move. The movements are what they are looking for and what is important to them; hence they fix their minds on that idea of movement and regard a stationary period as a preparation for a movement.

Sometimes a stationery period is a preparation for a movement, in the sense that while prices are holding on one plane, bullish or bearish factors are accumulating which cause shrewd traders to pick up stocks on soft spots or to let them go on the hard spots, as the case may be. In this way the market is bailed out and left comparatively bare of stocks, so that real bull news causes a quick advance; or it is gradually filled up so that bear news finds a larger supply of stock in the market and thus prices go down.

Speculators, who apparently never can get rid of the idea that the big men are running the market to suit themselves and pretty much regardless of conditions, are fond of referring to these periods as accumulation and distribution. Those words don't mean much of anything to me. Somebody is always accumulating—in other words buying—and somebody is always distributing. The whole question is, Which party is right?

In most cases, doubtless, it is the wealthier class of traders who are most likely to be right, and the "pikers" who are likely to be wrong, but there is certainly no rule about this. In 1907, for

example, it was the odd lot traders who were "accumulating" and some of the big capitalists were "distributing" their holdings at very low prices and at heavy losses. "The interests" have no such monopoly of correct views on the stock market as is commonly assumed.

On the other hand, there are resting periods in the market when neither bullish nor bearish factors are accumulating. The market is simply waiting an impulse; and in some cases I don't believe anybody in the world can tell in advance which direction that impulse is going to take. In such instances the active trader can act only after the new impulse begins to be felt. If he tries to anticipate it, he is merely gambling and he will lose money like any other gambler.

* * *

WHEN a man has in his mind a false conception instead of a real one, he is always at a disadvantage, no matter whether he deals in the stock market or in cabbages. The trader who thinks of the market as always moving is easily deceived.

For example, take the top of an advance while the market is passing through one of these static periods, the trader often does not in the least realize that the market is practically stationary. He sees a quick bull movement in first one stock and then another and is very likely to be under the impression that prices are still rising, when in point of fact they are stationary or even beginning to sag lower.

Likewise in a stationary period at low prices, the trader may be and usually is saying "Absolutely dead—nothing doing —can't hold even the smallest advance," etc. He is disgusted with the lack of movement, as though the stock market was under some obligation to keep going one way or the other all the time.

Instead of reviewing the situation from day to day to see what bullish or bearish features are developing on the horizon and examining the market to see whether those features are beginning to have their natural effect, he permits himself to sink into a condition of cynicism and lethargy.

The natural level of the water in a reservoir is stationary. Heavy rains may come on and raise the level, or a prolonged drought may lower it. The water supply may be drawn down for some special purpose, or it may be allowed to accumulate. Sometimes you may know when the water is to be drawn off or when a new supply is to be turned in, or you may be able to form some general ideas about rainy seasons and dry seasons, so that you can predict the rise and fall of the water level within certain limits. At other times you can only wait and see whether the water actually does rise or fall.

That's the way the stock market impresses me. Prices remain stationary unless something happens to make them move. Sometimes that something can be seen coming and its preliminary effects on the market can be observed. In other cases there is no way of knowing in which direction the market will move from its stationary level until the movement actually begins.

* * *

SOME traders are going to say "Why not catch those two point fluctuations, during a stationary period? That ought to be easy." Well, it isn't easy. That's only the old, old delusion. I don't believe there is a man in the world who can make a permanent success of it while paying full commissions. The odds against the trader are too heavy in view of the small profits which are possible in such a narrow market. Even the professional traders on the floor of the exchange who have no commissions to pay are not, as a rule, able to make any large annual profits out of these small changes in prices. The money is made out of the swings, not out of the scalping turns.

# The Composite Man

## It Is He Who Makes the Market

By RICHARD D. WYCKOFF

THERE is an old song which begins, "I care not what others may say."

So, I am unconcerned if you claim that "Morgan and the First National have more Reading than exists and the shorts will be badly twisted" or "This Steel common is sold to a standstill." I don't care what Morgan or the First National or the Steel crowd are doing, for the Composite Man is bigger than the whole bunch put together.

He makes every fluctuation, every swing, every bull or bear market. He defines the top eighth of every boom and the bottom eighth of every panic.

He is omnipotent.

In marking out the course of the market for the day, week, month or year, he knows and weighs every event the world over: The rise and fall of empires, the war in Europe and the complications arising therefrom; the hoarding of gold by the French and its effect on the world's capital; India's startling absorption of the yellow metal; the crops on every continent; the condition of labor and the rising Socialism in many countries; the plight of our railroads; the prosecution of the trusts; the coming tariff revision; the business and political outlook; current earnings; prospective dividends; the iron statistics; the copper and lead markets; the demand for, and the supply of all other commodities.

ALL these, with their infinite ramifications, The Composite Man takes into account and decides their relative bearing upon the price of stocks.

Likewise, he considers what lies in the vaults of Morgan, Rockefeller, and the great banking institutions; also what the public holds and whether it is paid for or carried on margin. He knows whether the floor traders have sold into a bag or whether they are putting a greater load into unwilling hands.

He knows all this and what its effects will be, for he is the man, long sought and much maligned, who sits behind the curtain and pulls the wires.

He is the well known "They" of whose operations we hear so much. He is blamed or applauded for everything that happens between William street and Broadway.

* * *

WHO is the Composite Man and where can he be found?

He consists of some two million personalities scattered over the face of the earth. Some of his component parts are richer, more powerful, than others. Some are noted for their foresight, intuition, shrewdness, conservatism; some for the dashing, daring, reckless quality of their moves. These millions of personalities form one, omniscent, who sways the market, crushing those who do not know and will not learn how to benefit by him, and crowning with profits and income those who do.

This Composite Man makes his commitments in one, ten, a hundred, a hundred thousand and a million share lots. At times his small lots outweigh the large ones on the other side of the market. His greatest influence is felt on the side of his greatest commitments.

He *is* supply and demand.

* * *

AND where can we learn what this Composite Man is doing and in what direction his operations tend?

Shall we find it in the columns of our newspaper, in the items on war, business, politics, or prosecution? Or in the list of buyers and sellers during the day's stock exchange session? Or in the tip that flashes about the Street? Or in the decisions of the Supreme Court?

No, in any of these you can get only the merest fraction of the Composite Man's intent.

There is only one place where he records his minute-to-minute thoughts, purposes and designs; where he maps out his campaigns; where he who understands may benefit:

The tape of the stock ticker is the one and only place where the mental operations of the Composite Man may be read.

There, on the narrow paper ribbon, his every thought is reflected. Those who understand find it an open book, with the author's mind in touch with that of the reader to a degree dependent upon the latter's knowledge of the subject. The book is open and it is a question of interpretation.

At times, its author, The Composite Man, expresses himself more clearly than at others; but the correct reading of these endless pages, with their innumerable pictures that change, yet never repeat, can be mastered by those who devote themselves to it.

# Legal Relations of Broker and Customer

By WILLIAM B. DEVOE, of the New York Bar

EVERY panic and semi-panic in the stock market produces a crop of lawsuits, brought by brokers against their customers and *vice-versa*. If there were a more general knowledge of the legal principles applicable to these relations, much of this litigation would never arise. As lawsuits are tedious and unsatisfactory at best, it is profitable for both brokers and their customers to become familiar with these legal principles.

The great majority of speculators deal on the "long" side of the market, human nature being generally optimistic. When one thus buys stocks through a broker on margin, the legal relation of pledgor and pledgee arises. The broker—the pledgee—may (and always does) buy the securities in his own name, but they are the property of the customer, who is the pledgor.[1] The broker, however, has a lien upon them for the portion of the purchase price advanced by him, and may retain the securities in his possession until this is paid.

The customer has the right at any time to tender to the broker the balance due upon the securities and demand their delivery, and the broker must be constantly in readiness to make such delivery when called upon. He may either keep the securities in his actual possession, or he may pledge them with banks as collateral for loans, provided that he does not pledge them for more than he has advanced to his customer on them, and provided further that he retains sufficient control over the securities, so that he can at once get them back from the banks with which they are pledged if the customer demands their delivery.[2] This latter method is, of course, the common practice among brokers. Securities bought for a customer on margin are at once deposited by the broker with some bank as collateral for a loan which the broker uses, together with the margin advanced by his customer, to pay the purchase price of the same securities.

This practice is perfectly legitimate. The broker is guilty of wrongdoing only when he is unable to deliver to his customer the same or equivalent securities (for they need not be the identical bonds or stock certificates) when the latter tenders the balance due thereon and demands them. If, for any reason, the broker cannot make such delivery, he then becomes guilty of conversion (which means simply a wrongful use of property which is not one's own), and is liable to his customer for damages. The customer is entitled to the purchase price of the securities, and in addition the difference between such purchase price and their highest market value within a reasonable time after the broker's refusal to deliver.

On the other hand, the broker is under no obligation to carry securities on margin indefinitely, even though the margins be kept good. He may at any time tender the stocks or bonds to his customer and demand that the latter take them and pay the balance of the purchase price. If the customer does not do so, the broker may, upon giving the customer reasonable notice of the time and place of such sale, sell the securities at the best price obtainable, and hold his customer for any resulting loss. In like manner, he may "sell out" his customer if the latter's margins become exhausted. The general rule is, that such sales, to be binding upon the customer, can be made only after demand for further margins and upon reasonable notice from the broker of the time and place of sale.

Many brokerage houses, however, print upon every bought and sold memo. which they send to customers a statement (usually in very unobtrusive type) to the effect that, upon all margin transactions, the broker reserves

[1] 120 New York 153.
[2] 151 App. Div. 866.

the right to close out the account *without further notice* "whenever margins become exhausted," or "whenever in our judgment the conditon of the account warrants it," or something of the sort.

It is an open question whether legally such a notice is a part of the contract between the broker and his customer, so as to bind the latter if his securities are sold without notice to him. The courts have decided the question both ways.[3] If, however, there has been a long course of dealings between them, during which time numerous notices of this kind have been received by the customer without objection, he will be held to have assented to the conditions set forth in the notice and will be bound by them. A very recent case goes further than this, and states as a general principle that such a notice is always a part of the contract between the parties and binds the customer.[4] Whether this rule would be applied to its full extent in any particular case would probably depend largely upon all the surrounding circumstances.

If a broker unwarrantably closes out without first demanding more margin, his customer's account as, for example, or without giving reasonable notice of the time and place of the contemplated purchase or sale, he is guilty of conversion, and the customer becomes entitled to damages. If the account closed out was on the "long" side of the market, these damages are the difference between the price realized on the unlawful sale and the highest market value of the securities within a reasonable time after the customer learns of the sale;[5] if on the "short" side, the customer may recover the difference between the price at which the securities were bought in and their lowest market price within a reasonable time after he learns of their unlawful purchase.[6]

The courts, by the way, have a great fondness for this word "reasonable," in cases involving the relations between brokers and traders. Time and again they speak of "reasonable notice," "reasonable demand," "reasonable time" and the like, but they are very chary of pointing out what *is* reasonable in any given case. This is natural, for what would be reasonable in one set of circumstances would not be so in another, but the term is annoyingly indefinite. No general rule can be formulated, and the question of reasonableness must be determined anew in each individual case by a consideration of all the attendant circumstances.

The rule of damages stated above is, of course, only general. Very often some special agreement or understanding exists as to the terms upon which a customer's account is carried, and in these cases such special agreement, rather than the general rule, will control.

The mutual rights and liabilities of brokers and those customers who trade on the "short" side are not clearly understood by many speculators, and, indeed, the whole machinery of short selling is shrouded in vagueness to many persons. It is, however, very simple. When a broker (whom we may call A) sells stocks short for his customer, he usually borrows the stock to deliver to the buyer from some other broker, whom we may label B. Stock Exchange houses do this borrowing in the "loan market," which is held on the floor of the Exchange daily at the close of the market.

If A's customer keeps the trade open for some time, and B wants the borrowed stock returned, A again borrows stock from a third broker, C, and uses it to repay his loan to B. This procedure is repeated as often as necessary until the trade is closed by the customer's order to "cover" or buy in the stock. When bought, the stock is, of course, delivered to the broker from whom it was last borrowed.

The rights and duties of the parties to a short sale are clearly stated in a very recent court decision, as follows:

"When a broker makes a short sale for a customer, he impliedly undertakes to continue the short sale for a reasonable time to enable his customer to acquire a profit, provided the customer keeps his broker secured, which

[3] 41 New York 235; 31 App. Div. 228; 100 App. Div. 517; 114 App. Div. 78.
[4] 137 App. Div. 367.
[5] 130 App. Div. 598, 604.
[6] 144 App. Div. 512, 514.

it is his corresponding duty to do. The broker, . . . after he has carried the stock for a reasonable time, thus affording his customer an opportunity to realize his expectations, may upon notice close the transaction with his customer. When, however, he elects to close the transaction for reasons other than a shortage of security, the notice to the customer of the intention to close it should afford the latter a reasonable opportunity to replace the transaction by a sale through some other agency."[7]

Everything that has been said by the writer thus far applies only to cases where both parties intend an actual purchase or sale of securities. If a so-called broker "buckets" his customer's orders instead of executing them, or in other words, merely bets against his customer's judgment, and loss ensues which in a *bona fide* transaction would fall upon the customer, the broker can recover nothing[8]; the customer, on the other hand, can recover all the margins which he has advanced. If both understand that there is to be no actual buying or selling, neither has any legal claim against the other. Of course, with the most honest intentions in the world, brokers sometimes fail to execute their customer's orders. If this results from the broker's failure to exercise ordinary care and diligence, he is liable to his customer for any loss of profits resulting therefrom[9]; but otherwise the broker will be exonerated. Thus, if he has orders to buy 100 shares of a certain stock at, say 65, on a certain date, and only 100 shares of that stock are sold at 65 on that date, the broker is not liable for his failure to secure them, for it would be unreasonable to expect it. If, however, the market goes below 65, and he fails to get any, he is accountable to his customer for the failure.

A customer may ratify and acquiesce in his broker's treatment of his account, even though it be unwarranted and unlawful, and such acquiescence need not always be expressed in words, but may be implied from the customer's acts, and if found to exist will bar him from any subsequent protest.[10] Thus, where a broker failed to carry out his customer's order to sell stock at a certain price, and the customer thereupon telegraphed: "Close out account at discretion, but feel that I am justly entitled to sale of U. P. at 129½," the court held that by authorizing the broker to close out the account at his discretion, the customer ratified and adopted the sale as made.[11] Failure of the customer to protest against an improper purchase or sale for a long period of time may likewise be treated as a ratification thereof,[12] as may also the acceptance and retention without objection of the periodic statements of account sent out by brokers.[13] These are usually rather formidable looking and complicated documents, and many traders do not take the trouble to decipher them. For the reason just stated, however, it is very advisable always to find out just what these statements really represent.

When a broker becomes insolvent, the accounts of all his customers are closed and the balances due to or from them are computed as of the date of his insolvency. The various changes in the broker's legal status resulting from bankruptcy need not be considered here. The practical result, from the customer's point of view, is that within a few days after the failure he gets a statement from the receiver in bankruptcy of the broker, showing his account as if closed out at the closing market prices on the date of the failure, or at the closing bid price, if there was no sale on that date. If this statement shows a credit balance, the customer may file a proof of debt for that amount in the Bankruptcy Court; or if the broker had in his possession at the time of failure any securities deposited with him by his customer as collateral to secure the latter's marginal account, *and the customer can identify these securities* by the number of the bond or certificate, or otherwise, he may tender to the receiver the amount due thereon (if anything) and

[7] 144 App. Div. 512, 514.
[8] 46 Misc. 115; 181 New York 231.
[9] 110 New York Supp. 261.

[10] 141 New York 71.
[11] 138 App. Div. 859.
[12] 119 App. Div. 373.
[13] 115 New York 533; 166 New York 245.

demand their return. If his demand is not complied with, he can recover them (or their proceeds, if they have been sold), by what is known as a "reclamation proceeding." This involves merely the presentation of a simple petition to the Bankruptcy Court, which thereupon rules summarily upon the customer's claims, without protracted litigation.

This rule applies only to cases where the customer has on deposit with his broker securities which the customer owns outright. If such a situation exists, the customer may reclaim his securities whether they are collateral for a short or a long account. The rule does not apply to securities which the broker is carrying for his customer on margin. The customer has no means of identifying these securities, and does not own them outright, but has a claim upon them only for the amount of margin which he has advanced thereon. If the statement of account which he gets from the receiver shows a credit balance dependent upon such securities, the customer has no remedy but to file a proof of debt for such credit balance as a general creditor of the bankrupt.

The writer has tried to make it appear that the legal principles applicable to the relations of stock brokers and their customers are really no more than "glorified common sense," a description which has been aptly applied to law as a whole. It is hoped that the foregoing very untechnical discussion may be of assistance to those who have to do with the stock market in enabling them to avoid the mistakes and misunderstandings which most commonly arise in such dealings.

## "Gambling in Wall Street"

THE MAGAZINE OF WALL STREET has always endeavored to cast its influence against the gambling class of transactions on the stock exchanges. It is undoubtedly true that the facilities of the exchanges appeal to a relatively small class of wealthy plungers as affording an opportunity for transactions which are, to all practical intents and purposes, of a gambling character.

Everything that can be done to limit this class of business without interfering with legitimate and intelligent investment and speculation should certainly be done. It is a difficult problem, but there may be some solution.

As for doing away with speculation, there is only one way—Socialism. If all productive industries were owned and operated by the Government, speculation would be practically eliminated. But that is a long step and most people believe it to be a dangerous one. It may come at some dim future date, but for the present it is out of the question.

So long as the present organization of society continues, speculation is a necessary part of it. You speculate every time you buy a week's supply of cigars on a "Saturday bargain day." The farmer speculates when he holds his grain for a higher price. The manufacturer speculates when he lays in a supply of raw material at a low figure. Even the school boy speculates when he buys two pencils for a nickel, although at the moment he needs only one.

In Volume Four of this magazine, we printed in full the report of the Hughes Committee on Speculation in Securities and Commodities, stating that we believed it to be "the most important Wall Street document ever issued." We are still of that opinion. The committee of ten included such well known men as Horace White, Professor John D. Clark, Maurice L. Muhleman, etc. We doubt very much if the present critics of the stock exchanges will be able to add anything of importance to the conclusions in that report.

The following sane summary of the functions of speculation, as given in that report, is worth rereading by those agitators who are now recommending hasty and radical action:

"Speculation consists in forecasting changes of value and buying or selling in order to take advantage of them; it may be wholly legitimate, pure gambling, or something partaking of the qualities of both. In some form it is a necessary incident of productive operations. When carried on in connection with either commodities or securities it tends to steady their prices. Where speculation is free, fluctuations in prices, otherwise violent and disastrous, ordinarily become gradual and comparatively harmless. Moreover, so far as commodities are concerned, in the absence of speculation, merchants and manufacturers would themselves be forced to carry the risks involved in changes of prices and to bear them in the intensified condition resulting from sudden and violent fluctuations in value. Risks of this kind which merchants and manufacturers still have to assume are reduced in amount, because of the speculation prevailing; and many of these milder risks they are enabled, by hedging, to transfer to others. For the merchant or manufacturer the speculator performs a service which has the effect of insurance."

# INQUIRIES

**This department is to answer miscellaneous questions in regard to the science of investment, methods of operating, the customs of the markets, etc. Please write questions briefly and, if personal reply is desired, enclose stamped and self-addressed envelope. Address INQUIRY DEPARTMENT.**

### Books on Panics.

What books would you recommend relative to panics in Wall Street, which point out the danger signals in the financial statistics of loans, deposits, etc., which precede them?—H. F.

The bound volumes of this magazine; Crowell's "How to Forecast Business and Investment Conditions," $2, postpaid; Burton's "Crises and Depressions," price $1.62, postpaid; Horace White's "Money and Banking," $1.65, postpaid; Jones' "Economic Crises," $1.34, postpaid. You will find others in our catalogue.

### Odd Lot Certificates.

As I understand it, certificates of stock of corporations such as U. S. Steel, etc., are issued in denominations of one hundred shares each. Now, if a person wished to purchase, say, ten shares outright, would he get a separate certificate of ownership for them, or would he simply be credited with them by his broker, his lot, being with several others, combined to make a hundred-share unit?—E. L.

You can buy and obtain a certificate in your name for any desired number of shares of U. S. Steel, or any other stock, from one share upward.

### Railroad Earnings—Daily Prices.

Will you kindly inform me where I can get the following information:

The monthly earnings of the principal railroads—that is, the earnings of each individual road month by month—gross, net and amount left for dividends, for the last five years.

The average price day by day of the principal railroads and industrials, past five years.

The daily individual price of the principal rails and industrials, high and low, past five years.—C. I.

You can find the railroad earnings and the prices of individual stocks daily in the files of the *Commercial and Financial Chronicle,* which are kept by most large public libraries, and by many brokerage and banking houses. There is a special supplement issued monthly which is almost entirely devoted to railroad earnings. The daily range of all the principal stocks is given each week in tabular form.

For the average price of 20 rails and the average of 12 industrials day by day, you will probably have to go to the files of the *Wall Street Journal.*

### Form of Telegraphic Order.

I will thank you to give me the correct form of order to be given a broker in the following case: Suppose I am "short" a stock, say, 100 Reading, and the market is declining, and wishing my profits to run I wire my broker to place a stop order in case the market should advance several points.—N. D.

An intelligible telegram would be as follows: "Keep stop on short Reading three points above lowest price reached."

### Time Money Rates.

I should like very much to get the average monthly rate of six-months' money for the years 1902, 1903, 1904, 1905, 1906, 1907 and 1908, in order to complete my chart of money conditions.—J.

The nearest thing to what you desire is found in Henry Hall's book "How Money Is Made in Security Investments" (price $1.52, postpaid), which gives the range of call money month by month, and also of time money, from 1891 to 1910, inclusive. We presume the time money rates would answer your purpose, as they are generally quoted on four- to six-months' money.

### U. S. Rubber Rights.

During the latter part of June or first of July I sold my rights in the U. S. Rubber Co. first preferred; I had 16 shares of that stock. The brokers I dealt with gave me $10 for my warrants. Should I not have realized more?—F. H.

U. S. Rubber rights sold on different dates between 7/16 and ¾ a share. This would represent from $7 to $12 on your 16 shares of stock, and it is to be presumed that you secured the market price when they were sold.

### Erie's Double-Tracking.

What improvement in earnings may reasonably be expected on Erie common as a result of double-tracking and improved physical condition and equipment?—C. H.

It would be impossible to predict the effect of the completion of double-tracking on Erie earnings. There can be no doubt that it will result in a substantial increase, but the amount of the increase is problematical. Improved physical conditions resulted, as will be seen from the "Bargain Indicator," in changing a deficit of 3.7 per cent. on the common in 1908 to earnings of 2.5 per cent. in 1911, but in 1912 there

was a drop to 0.7 per cent., partly as a result of interference of double-tracking operations with the movement of freight. It is generally believed that when the improvements on Erie are completed, the earnings on the common will be larger than in any recent year, under satisfactory conditions of general business. It is hoped that double-tracking will be completed by next May.

### Idle Cars.

I don't think the "surplus" or "shortage" of freight cars is a reliable index to railway earnings, for the reason that, at times, as during the last two or three years, the equipment is allowed to run down and the cars destroyed or put out of commission are not replaced. This was evidently the cause of the large shortage last November.—C. J.

The figures on idle cars are of interest and worthy of the attention of the investor, but they do not indicate railway earnings with much accuracy. They are affected by the number of new cars put in service and by the promptness with which repairs are made, by the weather, especially in the winter time, by the efficiency of the operating department, and by anything which interferes with the prompt movement of traffic, such as strikes, washouts, etc.

The large shortage last November was in part due to the fact that equipment on some roads had been allowed to run down, but it was also due in part to the great activity of business in certain lines, and especially to the big crops.

### A Plan of Trading.

J. P.—Your plan of trading seems to be practically the combination of two methods:

(1) Buying stocks for investment at as low a price as possible, closing out at as high a price as possible; going short at the high price and buying back the short stocks at the low price.

(2) An effort to catch 5-point fluctuations around the low prices and again around the high prices.

We recommend that you do not confuse the two operations, but keep them entirely separate in your own mind.

The first is practically an investment proposition, and if an investor has a fair knowledge of conditions, has studied the market for several years, and uses plenty of capital, buying his stocks outright on the long side, and using an equal amount of protection on the short side, he is in a relatively safe position and should secure profits depending upon the quality of his judgment.

The second part of the plan, which consists of trying to catch 5-point fluctuations, is far more difficult and can be made a success only by those who are close students of the technical condition of the market. It will be much easier to catch these fluctuations at high prices than at low prices. After a panic, speculation is generally at a low ebb, and the small fluctuations are few. During a boom, when prices are high, there is likely to be a more active speculation with wider and more frequent fluctuations.

The majority of active traders would probably prefer to use stop orders in connection with an effort to catch 5-point fluctuations.

### Industrial Averages—Reporting of Transactions.

I wish to keep a daily Trend Chart of 10 Industrials. Which stocks would you select for this purpose? The *Wall Street Journal* is using 12 stocks, but I think some of those are not active enough and some have little influence on the general market and, according to my opinion, are not very good to be used for a daily Barometer.

Also I had a discussion with a gentleman about the reported stock transactions in the newspapers. He thinks that the reported transactions are only a part of those which have really taken place. Could you tell me about what the proportion of the reported to the actual transactions is, as a rule?—G. M.

For a ten-stock Industrial Barometer at the present time we would suggest: Amalgamated, Beet Sugar, Can common, Smelting, American Telephone, Bethlehem Steel, California Petroleum, U. S. Rubber common, U. S. Steel common and Utah Copper.

In our opinion, the stocks in a Barometer of this kind should be changed from time to time, according to their activity and prominence in the market. What you want is a well-selected list of active, medium-priced stocks, covering a variety of different industries.

It is better to avoid such a stock as Tobacco because its very wide fluctuations would give it a disproportionate influence on your average. Likewise you avoid a low-priced stock like Ray because its fluctuations are likely to be so small as to have but little influence on your average.

All transactions on the New York Stock Exchange are reported, with the following exceptions:

(1) Odd lot transactions are not reported unless requested.

(2) Stocks sold on stop orders are usually not reported. These are commonly called "stop loss orders," but this is not necessarily true, as the stop order may be for the purpose of retaining a profit, or even to open a new trade.

(3) In wild markets, the reporter may fail to note some transactions in 100-share lots

It would be impossible to say what the per cent. of unreported transactions is, as this would vary greatly under different conditions of trading. As a rule, it is very small, with the exception of odd lot transactions, which are growing compared with round lot business.

## Book Reviews

**The Stock Exchange from Within.** By William C. Van Antwerp. Cloth, 459 pages, with index, appendix containing report of the Hughes Commission, and numerous bibliographical notes. (Doubleday Page.) For sale by Ticker Publishing Co. Price, $1.60, postpaid.

Mr. Van Antwerp is a member of the New York Stock Exchange and his book is admittedly and intentionally a defense of the institution and its methods of doing business, although not in any way officially indorsed. The publishers say:

"Before jumping to the conclusion that 'short-selling' is immoral, or that speculation should be restrained by law, or that the Stock Exchange should be incorporated, or that an unholy alliance exists between the Exchange and the banks—at least read the other side of the question."

The book is written in a very simple and interesting style, yet it goes to the bottom of the matters it discusses, and frequent references to authorities enable the student who desires to go into the subject more at length to refer to other books which will give him the desired information in full detail.

Topics taken up are: Functions of the Stock Exchange; Uses and Abuses of Speculation; Short Selling; The Banks and the Stock Exchange; Publicity; Cautions and Precautions; Panics, and the Crisis of 1907; History of Legislative Attempts to Restrain or Repress Speculation; Suggestions for Beginners; London Stock Exchange; Paris Bourse; and other similar subjects.

On the whole the book is a most interesting and timely discussion, and those who read it will have a much better idea of stock exchange affairs than they could get from any other recent publication that occurs to us.

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**Readers frequently ask to be referred to responsible brokerage houses. In making such a request, please state what amount you have for investment, or in what sized lots you wish to deal. Also state what large city is located most conveniently to you, or if you have any preference in this regard.**

**We refer our readers only to such houses as we would consider safe custodians of our own funds, but of course can take no further responsibility.**

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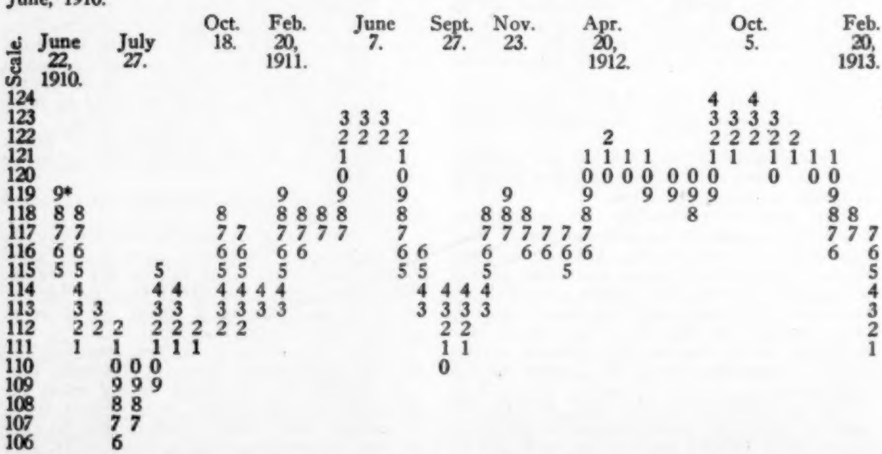
## The Figure Chart

The following figure chart completes the chart on page 108 of the July, 1910, Magazine of Wall Street, down to date given below. It is based on the daily average closing bid price of 20 standard railway stocks, and gives a general view of the course of the market since June, 1910.




*In order to condense the chart, only the last figure of each number is given. Thus 9 representing 119, etc.

# Essential Statistics Boiled Down

THE figures below give a complete view of the financial and industrial situation, with the best available comparisons for the corresponding month (or nearest month obtainable) in each of the four preceding years.

| | Average Money Rate Prime Commercial Paper New York. | Average Money Rate European Banks | Per Cent. Cash to Deposits, New York Clearing-house Banks. | Per Cent. Loans to Deposits, New York Clearing-house Banks. | Per Cent. Cash to Deposits, All National Banks. | Per Cent. Loans to Deposits, All National Banks. | Money in Circulation Per Capita First of Month. |
|---|---|---|---|---|---|---|---|
| February, 1913........ | 4⅝ | 5 | 26.0 | 98.7 | ..... | ..... | $34.71 |
| January, 1913.......... | 5 | 5 | 26.3 | 99.1 | ..... | ..... | 34.72 |
| December, 1912........ | 6 | 5 | 25.4 | 102.5 | 14.4* | 102.4* | 34.64 |
| February, 1912........ | 3⅝ | 4 | 27.4 | 95.2 | ..... | ..... | 34.61 |
| " 1911........ | 4 | 3¼ | 27.8 | 97.5 | 15.6† | 102.9† | 34.43 |
| " 1910........ | 4½ | 3½ | 27.1 | 98.9 | 15.4* | 103.6* | 34.82 |
| " 1909........ | 3¼ | 3¼ | 26.2 | 95.5 | 15.7* | 101.4* | 35.00 |

*November. †December.

| | New Securities Listed N. Y. Stock Exchange (000 omitted) | Bank Clearings of U. S. (000 omitted) | Bank Clearings of U. S. Excluding N. Y. City. (000 omitted) | Balance of Gold Movements—Imports or Exports. (000 omitted) | Balance of Trade Imps. or Exports. (000 omitted) |
|---|---|---|---|---|---|
| January, 1913...... | $50,929 | $16,308,723 | $6,969,982 | .......... | Ex. $64,000 |
| December, 1912.... | 159,488 | 15,455,139 | 6,646,417 | Im.$10,740 | Ex. $96,264 |
| January, 1912...... | 296,135 | 15,179,944 | 6,334,362 | Im. 3,226 | Ex. 58,859 |
| " 1911...... | 84,631 | 14,494,695 | 5,963,447 | Im. 8,617 | Ex. 66,522 |
| " 1910...... | 143,983 | 17,174,732 | 5,925,656 | Ex. 4,031 | Ex. 10,791 |
| " 1909...... | 455,133 | 14,052,390 | 5,168,090 | Ex. 4,445 | Ex. 53,136 |

| | Bradst's Index of Commodity Pcs. | English Index of Commodity Pcs. | Wholesale Price of Pig Iron. | Produc'n of Iron (Tons.) (000 o'td.) | Price of Copper. (Cents.) | U. S. Production of Copper (Lbs.) (000 o'td.) | U. S. St'l Co. Unfill. Tonnage. (000 o'td.) |
|---|---|---|---|---|---|---|---|
| February, 1913..... | 9.47 | 2,732 | $16.75 | ..... | 15.3 | ....... | ..... |
| January, 1913..... | 9.50 | 2,747 | 16.88 | 2,795 | 16.9 | 143,000 | 7,827 |
| December, 1912.... | 9.54 | 2,721 | 17.25 | 2,782 | 17.4 | 143,000 | 7,932 |
| February, 1912..... | 8.95 | 2,613 | 13.31 | 2,057* | 14.1 | 119,000* | 5,379* |
| " 1911..... | 8.76 | 2,523 | 14.25 | 1,759* | 12.2 | 116,000* | 3,110* |
| " 1910..... | 9.07 | 2,372 | 17.06 | 2,608* | 13.3 | 116,000* | ..... |
| " 1909..... | 8.30 | 2,196 | 16.13 | 1,797* | 12.9 | 112,000* | 5,927† |

*January. †December.

| | Net Surplus of Idle Cars. | Building Operations, Twenty Cities. | Business Failures. Total Liabilities. | Crop Conditions. Winter Wheat. | Babson's Average, 10 Leading R. R. Bonds. |
|---|---|---|---|---|---|
| February, 1913..... | ...... | ........... | ........... | .... | 95.4 |
| January, 1913..... | 28,439 | $31,403,534 | $19,466,551 | .... | 96.0 |
| December, 1912..... | 34,392* | 46,822,122 | 17,853,506 | 93.2 | 95.3 |
| February, 1912..... | 32,581 | 27,623,326† | 19,853,501† | .... | 98.5 |
| " 1911..... | 155,068 | 34,472,706† | 27,273,559† | 86.6‡ | 98.4 |
| " 1910..... | 24,975 | 33,443,030† | 24,873,751† | 82.5‡ | 99.8 |
| " 1909..... | 301,283 | 35,906,000† | 14,040,675† | 95.8‡ | 102.6 |

*Shortage. †January. ‡December.

# The Situation Summarized

**[While an attempt is here made to divide the important factors into favorable and unfavorable, this classification is for convenience only. It should be fully recognized that the same factor may have a bullish effect in one direction and bearish in another, or may be bullish in its immediate influence, but containing dangerous possibilities for the future. Also, it would be impossible to strike a balance in this way, as one bullish factor might be so important as to outweigh all bearish considerations, or vice versa.]**

## Favorable

**CALL money** continues at relatively comfortable figures, although somewhat firmer in February than in January. This is only what would be expected at the season, of course. Tight money in mid-winter is almost unknown.

**Bank clearings** outside New York City made a new high record for the month of January, and were the largest ever recorded for any month with the single exception of October, 1912. Some falling off in February.

**Failures for January,** as measured by total liabilities, were the smallest for that month since 1909, and have been smaller than the preceding year for four successive months. This is a better showing than earlier in 1912, when failures were relatively large.

**Solution of Union Pacific-Southern Pacific situation,** enabling U. P. to retain Central Pacific and providing for underwriting of So. P. stock, clears up a puzzling situation without serious injury to either road,—also, without benefit to the public, so far as we can see.

**Equipment orders** first seven weeks of 1913 have been very large—43,000 cars and 630 locomotives, more than double corresponding period of 1912—and many more inquiries are reported as in the market. Equipment companies are booked ahead at full capacity for six months or more.

**Incapacity of the Turks** to hold their own against the renewed assaults of the allies seems to make it pretty sure that the Balkan situation must soon begin to clear up. Real assurance of peace in Europe would be an important factor, as hoarded money would gradually return to circulation and foreign interest rates would doubtless soften, thus relaxing the demand on this country for gold.

**Production of pig iron** for January exceeded all records at 2,795,000 tons. Prices, however, are a little easier, and new orders are reported not quite up to capacity.

**Copper purchases** have been renewed on a liberal scale around 15c., but the business is entirely domestic. War and high money abroad interfere with foreign sales.

## Unfavorable

**SCARCITY of capital** is shown by high money abroad, by the underlying firmness of time money in New York, and by the high yield basis on which current bond issues are floated. Low reserves for the season are shown by banking institutions generally, here and in foreign countries.

**Excess of deposits over loans** in New York clearinghouse banks has practically disappeared again. The usual January swell in this excess was very feeble and short-lived.

**Commodity prices** continue near the highest level. That liquidation of commodities so long anticipated shows no signs of having begun as yet.

**Numerous strikes,** resulting in nearly all cases in substantial concessions by employers, and important voluntary increases in wages to ward off the possibility of strikes, indicate no lowering of costs to manufacturers and dealers. Profits of business men appear to be shrinking.

**The Mexican disturbance** may straighten itself out satisfactorily, but the chances seem to favor unsettled conditions there for some time to come.

**Renewal of Balkan War** affects us chiefly in the form of gold exports, at a time when we have great need for all our money at home. The heavy losses resulting from the expense of war and from the paralyzing of industry in Southeastern Europe are reducing the world's supply of capital, already depleted by public and private extravagance and strained by a high level of commodity prices.

**Steel orders** show a slight falling off at the end of January, after continuous increases. The peak of the big steel and iron business seems to have been practically reached.

**Price of copper** has dropped sharply, owing to large scale of production and slack foreign demand. Stocks on hand now liberal, but not by any means excessive.

**Tariff and currency uncertainties** continue. Stock Exchange seat sold for $48,000, a decline of one-half from high price.

# The Outlook

## Some of the Factors Beneath the Surface of Current Events

By G. C. SELDEN

THE general course of railroad stocks for ten years is shown in chart form below. The last week given is that ending February 15, 1913.

The diagram also shows, in millions of dollars, the course of excess deposits and surplus reserves of New York clearing-house banks (excluding the trust companies). The zero line represents equality of deposits and loans.

In the series of articles entitled, "Investing for Profit," I am discussing in this issue and next month the relation between deposits and loans of New York banks as shown in the diagram below, endeavoring to bring out as clearly as may be the principle upon which the diagram is based, as well as the method of constructing it and of allowing for seasonal deviations. Those who examine this diagram from month to month will perhaps wish to read these two articles with some care.

* * *

**The present situation** shown by the movement of the excess-deposit line is unusually interesting. It may be said, in a word, that an excess of deposits over loans is necessary to sustain or advance the prices of stocks, and that when this excess is lost a bear market usually sets in, and the situation is not relieved until after considerable liquidation has released enough capital to bring a sharp up-turn in the line, restoring a good excess of deposits.

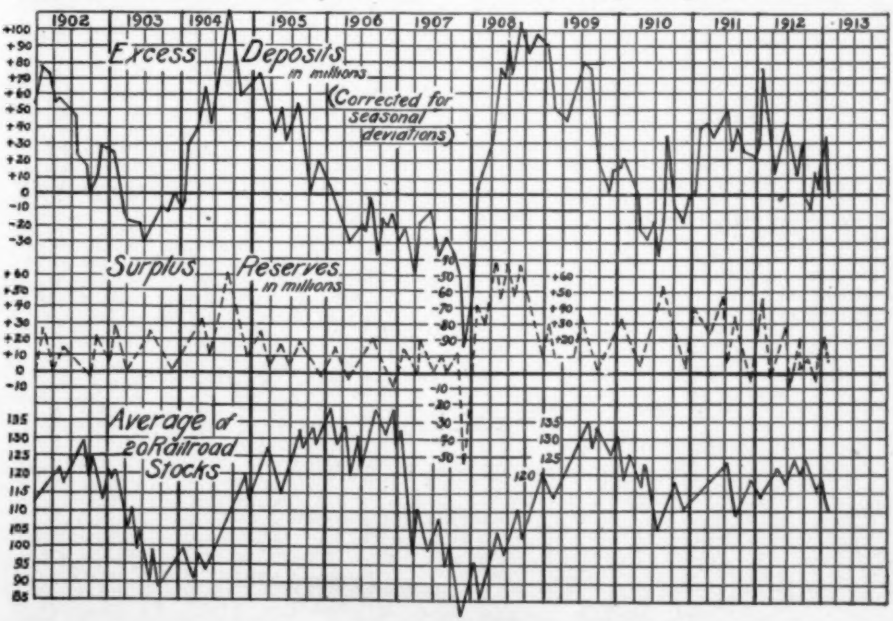
By the middle of 1912, the course of this line on the diagram indicated some weakness of our position as regards surplus capital. This was shown by the relatively small gain in excess deposits during midsummer, a period between the Spring and Fall demands for capital, when a surplus naturally accumulates. Attention was called to the subject in this column at that time.

In the second quarter of 1912, excess deposits melted away entirely, and a deficit appeared. The renewed accumulation shown in January of this year was due, of course, to the customary release of capital after the turn of the year, but the upward movement was feebler than in any year since 1910 and the excess of deposits has been quickly lost again, so that the line is now once more below the zero point.

I cannot extract any bullish consolation from the behavior of excess deposits at this time.

* * *

**An interesting sidelight** on this matter is



shown by the diagram accompanying Mr. Haliburton Fales' interesting article in this issue, which shows that advancing commodity prices are accompanied in nearly every instance by a decline in total bank reserves. Since bank reserves are a necessary basis of credit, this means that advancing commodity prices undermine credit conditions. It will be seen from that diagram that this difficulty has not in the past been corrected until a considerable liquidation in general business resulted in a sharp decline in the level of commodity prices.

At the present time, commodity prices are the highest for many years. Whether they have reached the top of their advance there is no way of knowing, but until a considerable decline takes place, it seems pretty clear that we cannot hope for such an accumulation of money in banks as would supply the necessary credit for any pronounced upward movement in the security market.

* * *

**Is "a Smash" Imminent?**—Many investors are now considering the possibilities of "a smash," as they call it, in the stock market. While I believe that the general tendency of prices is likely to be downward, considering the matter from the broad viewpoint of the investor, it does not seem to me that any such "smash" is now imminent, for the following reasons:

(1) We have had no large general public participation in the stock market for nearly ten years. During that time the number of holders of stocks on margin or on small capital has undoubtedly been gradually decreasing. Especially during the past three years has public speculation been at an exceedingly low ebb. This means, necessarily, that far more stocks are owned outright and paid for in full by investors than ten years ago, and consequently a bear market will find holders of securities stubborn and under no such urgent necessity of throwing over their holdings on declines as was formerly the case.

(2) It is also true that we have had no real boom in general business since 1907. Periods of activity in general trade during the last five years have been short, and have come at decidedly infrequent intervals. This means that business men in general are in the same position as investors. They are not over-extended, and stocks of goods on hand are moderate in most lines. Declining prices would result in inactivity and business contraction, but I see no reason why panicky conditions should arise for some time to come. It is the preceding boom which really brings on a business panic, and it is a long time since we have had anything which could properly be called a boom.

(3) It will be remembered that the sharp crisis of 1907 came only four years after the liquidation of 1903, and as only a little over five years have elapsed since then, there has not really been time enough to build up a top-heavy position in general credit circles. If we are to have a depression now, the way has been paved for it by the partial liquidations of 1907 and 1910. Business men are not in the vulnerable and over-extended position they would have been if we had had continued good times since 1903.

(4) Political uncertainties have operated to restrict business both in securities and in general trade during the past three years. A pronounced check was administered in the middle of 1910, when President Taft's policy first became evident. Another check came in the middle of 1911 when the Steel dissolution suit and others were filed, and prosecutions of big corporations were continued in a general way throughout 1912. If the same line of policy is to be pursued by President Wilson, it is at least true that both the stock market and general business are prepared for the worst by several preliminary experiences of a similar nature.

In a word, it is the general rule that an unreasonable boom precedes an unreasonable smash in security markets, and it is so long since we have had a real boom that a prolonged decline, interrupted by frequent rallies, seems more probable than any sudden panic.

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**Congress On Our Hands.**—The above, however, does not take into account the possibility of action by Congress which would seriously undermine the confidence of investors and business men, such as tampering with the currency or taking radical, ill-considered action in the regulation of the banking situation, or reducing the tariff in such a sudden and arbitrary way as to throw business in general out of adjustment.

The Democratic party today is far different from that of twenty years ago, and it is to be hoped, in the absence of definite evidence to the contrary, that its leaders will not take any summary action which would forfeit the confidence of the business community.